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COMPLAINT OF CITY OF CLEVELAND AGAINST HOPE NATURAL GAS COMPANY

Filed July 6, 1938—F. P. C. Docket No. G-100

1 The City of Cleveland brings this its complaint against Hope Natural Gas Company and for its cause of action avers:

First: Complainant, the City of Cleveland (hereinafter for convenience termed "Cleveland"), is a municipal corporation duly organized and existing under the laws and Constitution of the State of Ohio, and is a municipality within the meaning of the Natural Gas Act.

Second: Defendant, Hope Natural Gas Company (hereinafter for convenience designated as "Hope"), is a corporation duly organized and existing under the laws of the State of West Virginia, has its principal place of business in the City of Pittsburgh in the State of Pennsylvania, and is a natural gas company engaged in the transportation of natural gas in interstate commerce and the sale in interstate commerce of such gas for resale and is a public utility within the meaning of the Natural Gas Act.

2 Third: The only company distributing natural gas in Cleveland is The East Ohio Gas Company (hereinafter for convenience termed "East Ohio"), a wholly owned subsidiary of the Standard Oil Company (New Jersey), which purchases approximately 70 percent of the gas which it merchandises in Ohio from the defendant Hope, likewise a wholly owned subsidiary of the Standard Oil Company (New Jersey), said gas being produced in the State of West Virginia and delivered to East Ohio at the Ohio River.

Fourth: The price charged by defendant Hope to East Ohio for resale to consumers in Cleveland and elsewhere for all gas including domestic, commercial and regular industrial gas, and except only certain gas sold for resale to large industrial consumers under special contract, is 38½ cents per M. c. f. A copy of the Hope-East Ohio contract is filed herewith and made a part hereof as fully as though physically incorporated herein. Under said Hope-East Ohio contract, East Ohio pays to Hope annually a total of approximately $13,000,000.

Fifth: The price charged by defendant Hope to East Ohio for natural gas for resale to domestic, commercial and small indus-

trial consumers in Cleveland and elsewhere is excessive, unjust, unreasonable, greatly in excess of the price charged by Hope to nonaffiliated companies at wholesale for resale to domestic, commercial, and small industrial consumers, and greatly in excess of the price charged by Hope to East Ohio for resale to certain favored industrial consumers in Ohio, and therefore is further unduly discriminatory between customers and between classes of service.

Sixth: On May 20, 1937, the City of Cleveland passed a rate ordinance No. 106556, regulating and fixing the prices and terms upon which East Ohio shall furnish natural gas for and during the period from June 30, 1937 until July 1, 1939. East Ohio has appealed from said ordinance to The Public Utilities Commission of Ohio, and has suspended the ordinance rates by the filing of a bond to refund to its customers in Cleveland the
3 excess collected in the interim over and above the ordinance
rate or any other rate found to be fair by The Public Utilities Commission of Ohio. In this proceeding, now pending before The Public Utilities Commission of Ohio and known as Case No. 10202 on its docket, East Ohio seeks to include in operating expenses said price of 38½ cents per M. c. f. paid by it to its affiliate, the defendant Hope, at the rate fixed in said intercorporate contract between Hope and East Ohio for natural gas delivered at the Ohio River for transportation to and resale in Cleveland and elsewhere, commonly known as the River Rate.

A determination by this Honorable Commission of the fair, just, and reasonable rate for gas sold by Hope to East Ohio at the Ohio River should be of assistance in the cases of Cleveland and other Ohio municipalities now pending before The Public Utilities Commission of Ohio and is essential to the determination of a fair, just, and reasonable rate for natural gas in Cleveland after the expiration of the present ordinance approximately one year hence.

Seventh: The filing of this petition has been authorized and directed by resolution of the Council of the City of Cleveland adopted July 1, 1938.

Wherefore, Complainant prays for an investigation by the Federal Power Commission, a finding that said River Rate is excessive, unreasonable, and unjustly discriminatory, and for the fixing of a just, fair and reasonable rate.

ANSWER OF HOPE NATURAL GAS COMPANY TO COMPLAINT OF THE CITY OF CLEVELAND

Filed August 18, 1938—F. P. C. Docket No. G-100

1 Hope Natural Gas Company, hereinafter called "Hope," for its answer to the petition herein filed—.

1. Admits the allegations contained in paragraph First of the petition.

2. Admits the allegations contained in paragraph Second of the petition.

3. Admits the allegations contained in paragraph Third of the petition.

4. Admits that the copies of its contracts with The East Ohio Gas Company, hereinafter called "East Ohio," filed with the petition, are true copies and begs leave to refer thereto for an exact statement of the price and the other terms and conditions of these contracts. Admits that under said contracts East Ohio paid to Hope for natural gas delivered thereunder during the year 1937 the sum of $12,757,670 for 35,074,416 M. c. f. of natural gas or an average price of 36.37¢ per M. c. f.

5. (a) Denies the allegations of paragraph Fifth of the petition in their entirety.

(b) As to the charge that the contract price between Hope and East Ohio for natural gas for resale to domestic, commercial and small industrial consumers is excessive and unreasonable, Hope avers that said price does and not has not in any recent
2 years been sufficient to yield more than a fair return on the fair value of its property devoted to that service; that this price since 1921 has been repeatedly investigated by the cities of Cleveland and Akron, Ohio, and by The Public Utilities Commission of Ohio, all of whom have made valuations of Hope's property, audited its operating expenses and otherwise investigated its property and operations, and that said price was recently approved by said Commission for the years 1933 to 1937 *In re East Ohio Gas Company*, 17 P. U. R. (N. S.) 433, and is now being reexamined by said Commission in the present controversy between East Ohio and the City of Cleveland arising out of the ordinance of May 20, 1937, referred to in the petition.

(c) As to the charge that this contract price to East Ohio is "greatly in excess of the price charged by Hope to nonaffiliated companies" and others and is therefore discriminatory, Hope avers that the differences in prices provided by its contracts with

East Ohio and with nonaffiliated companies arise solely out of differences in the terms and conditions of service; that Hope's contracts with nonaffiliated companies are expressly subordinated to the rights of the domestic consumers of East Ohio, among others, in the event of a shortage; that these contracts with nonaffiliated companies specify yearly, monthly and daily deliveries with limited variations therefrom and provide for deliveries principally at points in Hope's producing fields at low pressures, any further work of compression and transmission in West Virginia being performed by the purchasers. In the case of Hope's contract with East Ohio the requirements of the domestic consumers of that company are given preference over the consumers of all nonaffiliated purchasers; Hope's obligation is to deliver to East Ohio the requirements of the latter's domestic consumers in Ohio, whatever these requirements may be, and to deliver gas at the Ohio River at pressures sufficient to carry the gas to consumers' burner tips throughout the territory served by East Ohio. The latter company is not required to and does not maintain compressing stations for the transmission and distribution of this gas in Ohio. These substantial differences and others in the terms and conditions of service under Hope's contracts with East Ohio and with nonaffiliated companies are the basis for the differences in prices specified therein.

(d) As to the charge that this contract price is "greatly in excess of the price charged by Hope to East Ohio for resale to certain favored industrial consumers in Ohio" and is therefore unduly discriminatory, Hope avers that said industrial gas is not sold by East Ohio to favored consumers but under con-
3 tracts and schedules duly filed with and approved by The Public Utilities Commission of Ohio, such schedules being applicable to all consumers using the specified quantities and willing to accept service under the terms offered; that such gas is sold subject to interruption when necessary to furnish a full supply to other consumers and under a high load factor; that East Ohio receives for this gas as much as it can be sold for in competition with other fuels; that the sale of such gas by East Ohio and Hope at the prices received enables both companies to sell regular gas at lower prices than would otherwise be possible; that the discount thereon provided in said Hope-East Ohio contract is based on the special terms and conditions of service applicable to such gas, and is not unduly discriminatory.

6. (a) As to paragraph Sixth of the petition, Hope admits that on May 20, 1937, the City of Cleveland passed an ordinance as stated in the petition; admits that East Ohio has appealed from said ordinance to The Public Utilities Commission of Ohio; avers that the average rate previously in effect for domestic consumers in the City of Cleveland was substantially 57¢ per M. c. f., whereas the ordinance of May 20, 1937 fixes a rate that would average approximately 55½¢ per M. c. f.; avers that upon appealing to said Public Utilities Commission in accordance with the provisions of the Public Utilities Act of Ohio, East Ohio filed a bond to refund to consumers in Cleveland such part, if any, of the 1½¢ difference between said two rates as the Commission might subsequently find to be excessive; admits that in said proceeding now pending before The Public Utilities Commission of Ohio, East Ohio has included in operating expenses the sums paid by it to Hope for gas at the Ohio River at the present rate fixed in said contracts heretofore referred to.

(b) Hope denies that a determination by this Honorable Commission of the fair rate for gas sold by Hope to East Ohio at the Ohio River will be of any assistance in the case of the City of Cleveland now pending before The Public Utilities Commission of Ohio, averring that said Commission is required to determine the fairness of said contract price as of June 30, 1937, the effective date of said ordinance; that said Commission has had submitted to it and is checking and investigating complete inventories, valuations, operating expenses and other pertinent information relating to Hope; that such evidence has been submitted not only by East Ohio but much of it by the representatives of the City of Cleveland; and that both the representatives of the City of Cleveland and of The Public Utilities Commission
4 mission of Ohio have had access at all times to the books, records and property of Hope in so far as said Commission deemed pertinent. Hope respectfully suggests that while this Honorable Commission is given the power to determine interstate rates prospectively, it is not given the power to determine whether the rate in effect on June 30, 1937 was or was not unreasonable or unlawful.

(c) Hope denies that a determination of a fair contract price between East Ohio and Hope by this Honorable Commission is essential to the determination of a fair and reasonable rate for natural gas in Cleveland either now or after the expiration of the present ordinance in June, 1939. It avers that in repeated rate

controversies between the Cities of Cleveland and Akron and East Ohio since 1921 the Ohio courts or Public Utilities Commission hearing such controversy has in each instance imposed upon East Ohio the burden of proving that the prices at the time paid to Hope and reflected in its operating expenses were fair and reasonable prices; that in connection with the trial of said cases the engineers, accountants and attorneys of the respective cities have had access to the properties, books and records of Hope in so far as these were essential in determining Hope's costs; that the City of Cleveland had reports of its own engineers and accountants on Hope's properties and operations as of 1921, again as of 1928, again as of 1931 and again as of 1937, and additionally that the City of Akron had similar reports as of 1932. Because of the common ownership of the stock of Hope and East Ohio The Public Utilities Commission of Ohio, the City of Cleveland and East Ohio have all assented to the position in the present controversy pending before said Commission that the contract price between the two affiliated companies at the river is not even prima facie evidence of its fairness and both parties introduced evidence as to, and the Commission itself is investigating, the value of the properties of Hope, its operations and its operating expenses in as complete detail as for East Ohio. Moreover, the Commission in former cases involving East Ohio rates has allowed as an operating expense to East Ohio the sums paid to Hope on account of gas delivered at the Ohio River only to the extent that it found them to be fair and reasonable. In the present Cleveland case the matter is being submitted to the Commission by all parties on the assumption that the Commission will again decide and allow in East Ohio's operating expenses whatever it finds to be the fair and reasonable river rate as of June 30, 1937, not exceeding, however, the price actually paid. In view of the facts hereinabove stated Hope avers that the properties, records, and operations of East Ohio and Hope, and their relations, have been under almost continuous investigation by the Cities of Cleveland and Akron for the past ten years and by The Public Utilities Commission of Ohio for the past seven years and denies that the exercise by this Commission of its jurisdiction as sought in the petition is necessary to enable either the City of Cleveland or said Commission to fix a fair rate for natural gas service in Cleveland or elsewhere.

7. Admits the allegations contained in paragraph Seventh of the petition.

COMPLAINT OF THE CITY OF AKRON AGAINST HOPE NATURAL GAS COMPANY

Filed July 25, 1938—F. P. C. Docket No. G-101

1 The city of Akron, Ohio, brings this its complaint against Hope Natural Gas Company and for its cause of action avers:

First: Complainant, the City of Akron (hereafter for convenience termed "Akron"), is a municipal corporation duly organized and existing under the laws and Constitution of the State of Ohio, and is a municipality within the meaning of the Natural Gas Act.

Second: Defendant, Hope Natural Gas Company (hereinafter for convenience designated as "Hope"), is a corporation duly organized and existing under the laws of the State of West Virginia, has its principal place of business in the City of Pittsburgh in the State of Pennsylvania, and is a natural gas company engaged in the transportation of natural gas in interstate commerce and the sale in interstate commerce of such gas for resale and is a public utility within the meaning of the Natural Gas Act.

Third: The only company distributing natural gas in Akron is The East Ohio Gas Company (hereinafter for convenience termed "East Ohio"), a wholly owned subsidiary of the Standard Oil Company (New Jersey), which purchases approximately 70 per cent of the gas which it merchandises in Ohio from the
2 defendant Hope, likewise a wholly owned subsidiary of the Standard Oil Company (New Jersey), said gas being produced in the State of West Virginia and delivered to East Ohio at the Ohio River.

Fourth: The price charged by defendant Hope to East Ohio for resale to consumers in Akron and elsewhere for all gas including domestic, commercial and regular industrial gas, and except only certain gas sold for resale to large industrial consumers under special contract, is 38½ cents per M. c. f. A copy of the Hope-East Ohio contract is filed herewith and made a part hereof as fully as though physically incorporated herein. Under said Hope-East Ohio contract, East Ohio pays to Hope annually a total of approximately $13,000,000.

Fifth: The price charged by defendant Hope to East Ohio for natural gas for resale to domestic, commercial and small industrial consumers in Akron and elsewhere is excessive, un-

just, unreasonable, greatly in excess of the price charged by Hope to nonaffiliated companies at wholesale for resale to domestic, commercial, and small industrial consumers, and greatly in excess of the price charged by Hope to East Ohio for resale to certain favored industrial consumers in Ohio, and therefore is further unduly discriminatory between customers and between classes of service.

Sixth: On May 11, 1937, the City of Akron passed a rate ordinance, No. 136–1937, regulating and fixing the prices and terms upon which East Ohio shall furnish natural gas for
3 and during the period from June 10, 1937 until July 10, 1941. East Ohio has appealed from said ordinance to The Public Utilities Commission of Ohio, and has suspended the ordinance rates by the filing of a bond to refund to its customers in Akron the excess collected in the interim over and above the ordinance rate or any other rate found to be fair by The Public Utilities Commission of Ohio. In this proceeding, now pending before The Public Utilities Commission of Ohio and known as Case No. 10162 on its docket, East Ohio seeks to include in operating expenses said price of 38½ cents per M. c. f. paid by it to its affiliate, the defendant Hope, at the rate fixed in said intercorporate contract between Hope and East Ohio for natural gas delivered at the Ohio River for transportation to and resale in Akron and elsewhere, commonly known as the River Rate.

A determination by this Honorable Commission of the fair, just, and reasonable rate for gas sold by Hope to East Ohio at the Ohio River should be of assistance in the cases of Akron and other Ohio municipalities now pending before The Public Utilities Commission of Ohio and is essential to the determination of a fair, just, and reasonable rate for natural gas in Akron after the expiration of the present ordinance.

Seventh: The filing of this petition has been authorized and directed by resolution of the Council of the City of Akron adopted July 5, 1938.

Wherefore, Complainant prays for an investigation by
4 the Federal Power Commission, a finding that said River Rate is excessive, unreasonable, and unjustly discriminatory, and for the fixing of a just, fair, and reasonable rate.

ANSWER OF HOPE NATURAL GAS COMPANY TO COMPLAINT OF THE CITY OF AKRON

Filed August 26, 1938—F. P. C. Docket No. G--101

1 Hope Natural Gas Company, hereinafter called "Hope," for its answer to the petition herein filed—

1. Admits the allegations contained in paragraph First of the petition.

2. Admits the allegations contained in paragraph Second of the petition.

3. Admits the allegations contained in paragraph Third of the petition.

4. Admits that the copies of its contracts with The East Ohio Gas Company, hereinafter called "East Ohio," filed with the petition, are true copies and begs leave to refer thereto for an exact statement of the price and the other terms and conditions of these contracts. Admits that under said contracts East Ohio paid to Hope for natural gas delivered thereunder during the year 1937 the sum of $12,757,670 for 35,074,416 M. c. f. of natural gas or an average price of 36.37¢ per M. c. f.

5. (a) Denies the allegations of paragraph Fifth of the petition in their entirety.

(b) As to the charge that the contract price between Hope and East Ohio for natural gas for resale to domestic, commercial, and small industrial consumers is excessive and unreasonable, Hope avers that said price does not and has not in any recent years
2 been sufficient to yield more than a fair return on the fair value of its property devoted to that service; that this price since 1921 has been repeatedly investigated by the cities of Cleveland and Akron, Ohio, and by The Public Utilities Commission of Ohio, all of whom have made valuations of Hope's property, audited its operating expenses and otherwise investigated its property and operations, and that said price was recently approved by said Commission as more particularly set forth in paragraph 6 (a) hereof, and is now being reexamined by said Commission in the present controversy between East Ohio and the City of Akron arising out of the ordinance of May 11, 1937, referred to in the petition and upon East Ohio's appeal to said Commission from an ordinance of the City of Cleveland passed May 20, 1937, prescribing East Ohio's rates in Cleveland for a period of two years from June 30, 1937. Said Cleveland ordinance and said

proceeding thereon before said Commission are fully described in the petition and answer of the parties in *City of Cleveland vs. Hope Natural Gas Company*, No. G-100 before this Honorable Commission. Hope begs leave to refer to said petition and answer for a more complete statement of said Cleveland ordinance and said proceeding.

(c) As to the charge that this contract price to East Ohio is "greatly in excess of the price charged by Hope to nonaffiliated companies" and others and is therefore discriminatory, Hope avers that the differences in prices provided by its contracts with East Ohio and with nonaffiliated companies arise solely out of differences in the terms and conditions of service; that Hope's contracts with nonaffiliated companies are expressly subordinated to the rights of the domestic consumers of East Ohio, among others, in the event of a shortage; that these contracts with nonaffiliated companies specify yearly, monthly, and daily deliveries with limited variations therefrom and provide for deliveries principally at points in Hope's producing fields at low pressures, any further work of compression and transmission in West Virginia being performed by the purchasers. In the case of Hope's contract with East Ohio the requirements of the domestic consumers of that company are given preference over the consumers of all nonaffiliated purchasers; Hope's obligation is to deliver to East Ohio the requirements of the latter's domestic consumers in Ohio, whatever these requirements may be, and to deliver gas at the Ohio River at pressures sufficient to carry the gas to consumers' burner tips throughout the territory served by East Ohio. The latter
3 company is not required to and does not maintain compressing stations for the transmission and distribution of this gas in Ohio. These substantial differences and others in the terms and conditions of service under Hope's contracts with East Ohio and with nonaffiliated companies are the basis for the differences in prices specified therein.

(d) As to the charge that this contract price is "greatly in excess of the price charged by Hope to East Ohio for resale to certain favored industrial consumers in Ohio" and is therefore unduly discriminatory, Hope avers that said industrial gas is not sold by East Ohio to favored consumers but under contracts and schedules duly filed with and approved by The Public Utilities Commission of Ohio, such schedules being applicable to all consumers using the specified quantities and willing to accept service under the terms offered; that such gas is sold subject to interruption when neces-

sary to furnish a full supply to other consumers and under a high load factor; that East Ohio receives for this gas as much as it can be sold for in competition with other fuels; that the sale of such gas by East Ohio and Hope at the prices received enables both companies to sell regular gas at lower prices than would otherwise be possible; that the discount thereon provided in said Hope-East Ohio contract is based on the special terms and conditions of service applicable to such gas, and is not unduly discriminatory.

6. (a) As to paragraph Sixth of the petition Hope avers that prior to May 19, 1932, East Ohio was collecting in the City of Akron, pursuant to an ordinance contract between East Ohio and Akron, a domestic rate averaging a little more than 64¢ per M. c. f. Effective May 19, 1933, the electors of the City of Akron enacted an initiated ordinance for a four-year period ending May 19, 1937, which provided a domestic rate averaging about 50¢ per M. c. f.

East Ohio appealed to The Public Utilities Commission of Ohio from this latter ordinance and in accordance with the statutes of Ohio elected to collect under bond the rate theretofore in effect. The City of Akron employed the same engineers, accountants and geologists who had theretofore and have since represented the City of Cleveland in rate controversies with East Ohio and presented to the Commission, as did East Ohio, complete testimony as to the value of Hope's property, its operating expenses and its operations. For this purpose they were given access to Hope's properties, books, and records insofar as these bore on Hope's costs of gas.

4 On February 1, 1937, said Commission made its findings and order and thereby found the rate fixed by said ordinance effective May 19, 1933, to be unjust and unreasonable and fixed a rate to be substituted therefor averaging 62.35¢ per M.c.f.

In its findings said Commission valued the property of Hope and determined its operating expenses in precisely the same detail as it did for East Ohio. It further found that he contract price of 38½¢ paid by East Ohio to Hope and here under attack, was a fair and reasonable price and allowed the same in the amount paid by East Ohio as a part of its operating expenses. The findings and order of said Commission are published in *Re East Ohio Gas Company*, 17 P. U. R. (N. S.) 433, and Hope begs leave to refer to the extensive and detailed findings there made insofar as here material.

Both East Ohio and the City of Akron prosecuted error from said findings and final order of the Commission to the Supreme Court of Ohio which affirmed said order of the Commission setting aside said 1933 ordinance rate as unreasonable and unlawful, but reversed said order and finding fixing a new rate and directed said Commission to modify the same in certain minor respects, the effect of which Hope avers will be to increase the rate to be finally fixed by said Commission. For a more complete statement Hope begs leave to refer to the report of said case, *East Ohio Gas* . v. *Public Utilities Commission*, 133 O. S. 212.

Notwithstanding that said Public Utilities Commission had theretofore held said 1933 Akron ordinance rate to be grossly unreasonable, the City of Akron proceeded, as alleged in its petition, on May 11, 1937, to pass a new ordinance effective for another four-year period, fixing precisely the same rate as that stricken down. East Ohio has likewise appealed from said last ordinance, elected to continue the former rate under bond and said appeal is now pending before the Public Utilities Commission of Ohio. Hope admits that East Ohio will include in operating expense and ask the Commission to allow the sums paid to Hope for the purchase of gas at the Ohio River under the Hope-East Ohio contract.

(b) Hope denies that a determination by this Honorable Commission of the fair rate for gas sold by Hope to East Ohio at the Ohio River will be of any assistance in the case of the City of Akron now pending before The Public Utilities Com-
5 mission of Ohio, averring that said Commission is required to determine the fairness of said contract price as of approximately June 10, 1937, the effective date of said ordinance. Hope respectfully suggests that while this Honorable Commission is given the power to determine interstate rates prospectively, it is not given the power to determine whether the rate in effect on or about June 10, 1937 was or was not unreasonable or unlawful.

(c) Hope denies that a determination of a fair contract price between East Ohio and Hope by this Honorable Commission is essential to the determination of a fair and reasonable rate for natural gas in Akron either now or after the expiration of the present ordinance in June 1941. It avers that in repeated rate controversies between the Cities of Cleveland and Akron and East Ohio since 1921 the Ohio court or Public Utilities Commission hearing such controversy has in each instance imposed upon East Ohio the burden of proving that the prices at the time

paid to Hope and reflected in its operating expenses were fair and reasonable prices; that in connection with the trial of said cases the engineers, accountants and attorneys of the respective cities have had access to the properties, books, and records of Hope inofar as these were esential in determining Hope' costs; that the City of Cleveland had reports of its own engineers and accountants on Hope's properties and operations as of 1921, again as of 1928, again as of 1931, and again as of 1937, and that the City of Akron had access to the Cleveland reports and additionally had similar reports as of 1932. Because of the common ownership of the stock of Hope and East Ohio, The Public Utilities Commission of Ohio, the Cities of Cleveland and Akron and East Ohio have all assented to the position in rate controversies that the contract price between the two affiliated companies at the river is not even prima facie evidence of its fairness. All parties have introduced evidence as to, and the Commission itself has investigated, the value of the properties of Hope, its operations and its operating expenses in as complete detail as for East Ohio. Moreover, the Commission in former cases involving East Ohio rates has allowed as an operating expense to East Ohio the sums paid to Hope on account of gas delivered at the Ohio River only to the extent that it found them to be fair and reasonable. In view of the facts hereinabove stated Hope avers that the properties, records, and operations of East Ohio and Hope, and their relations, have been under almost continuous investigation by the Cities of Cleveland and Akron for the past ten years and by
6 The Public Utilities Commission of Ohio for the past seven years and denies that the exercise by this Commission of its jurisdiction as sought in the petition is necessary to enable either the City of Akron or said Commission to fix a fair rate for natural gas service in Akron or elsewhere.

7. Admits the allegations contained in paragraph Seventh of the petition.

AMENDMENT TO COMPLAINT OF THE CITY OF CLEVELAND AGAINST HOPE NATURAL GAS COMPANY

Filed January 6, 1939—F. P. C. Docket No. G-100

1 The City of Cleveland, with leave of the Federal Power Commission first obtained, amends its petition and complaint herein by the addition of the following allegations, averments, and prayer:

First: Pursuant to the Natural Gas Act, Public No. 688, 75th Congress, Chapter 556, Third Session, approved June 21, 1938, and effective June 21, 1938, your Honorable Commission has authority to investigate any facts, conditions, practices, or matters which it may find necessary or proper in order to determine whether any person has violated or is about to violate any provision of said Natural Gas Act. (Sec. 14 (a).)

Second: Pursuant to said Natural Gas Act, your Honorable Commission has authority to make available to state commissions and municipalities, information concerning any such matter. (Sec. 14 (a).)

Third: Pursuant to said Natural Gas Act, all rates and charges, made, demanded or received by any natural gas company for or in connection with the transportation or sale of natural gas subject to the jurisdiction of the Commission must be just and reasonable and nondiscriminatory and any such rate or
2 charge that is not just and reasonable and nondiscriminatory is unlawful, and has been unlawful ever since the effective date of said Natural Gas Act on June 21, 1938. (Sec. 4 (a) and (b).)

Fourth: Pursuant to said Natural Gas Act, your Honorable Commission has authority to investigate and determine whether the charges made by Hope Natural Gas Company and payments received from The East Ohio Gas Company were unjust, unreasonable, unduly discriminatory and preferential and therefore contrary to Federal law, as of June 21, 1938, the effective date of the Natural Gas Act, and at all times subsequent thereto. (Natural Gas Act, Sec. 14 (a), (b).) (Sec. 4 (a).)

Fifth: Pursuant to said Natural Gas Act, your Honorable Commission upon its own motion, or upon the request of any state commission, whenever it can do so without prejudice to the efficient and proper conduct of its affairs, may investigate and determine the cost of the production and transportation of natural gas by a natural gas company in cases where the Commission has

no authority to establish a rate governing the transportation or sale of such natural gas. (Natural Gas Act, Sec. 5 (b).)

Sixth: The price charged by defendant Hope to East Ohio for natural gas was on June 21, 1938, and has been at all times since excessive, unjust, unreasonable, and discriminatory, at least in so far as said price has exceeded an average of 30 cents per M. c. f., and therefore was as of June 21, 1938, and has been at all times since, unlawful and contrary to the laws of the United States.

Seventh: A determination by your Honorable Commission in accordance with the prayer of this amendment should be of assistance in the cases of Cleveland and other Ohio municipalities now pending before The Public Utilities Commission of Ohio, in that the reasonableness of the ordinance rate in Cleveland for the two year period ending on or about June 30, 1939, is ultimately dependent upon the lawfulness of the charge made by Hope Natural Gas Company to The East Ohio Gas Company at the Ohio River; and the only body which can determine whether the price charged by Hope to East Ohio and received by Hope from East Ohio has been unlawful and contrary to the laws of the United States is your Honorable Commission (Natural
3 Gas Act, Sec. 1 (b)); and in the case of The East Ohio Gas Company v. Cleveland, now pending before The Public Utilities Commission of Ohio and known as Case No. 10.202 on the docket of said commission, no allowance can be made in the operating expenses of The East Ohio Gas Company which is unlawful either for the buyer to pay, or for the seller to charge or receive.

Wherefore, the City of Cleveland prays that the order of investigation of the Federal Power Commission dated October 14, 1938, and docketed as No. G–113, be modified to include an investigation whether Hope Natural Gas Company has violated the Natural Gas Act by charging to and receiving from The East Ohio Gas Company an unreasonable, unjust, and discriminatory rate for natural gas delivered at the Ohio River on and since June 21, 1938, at least in so far as the average charge made by Hope Natural Gas Company and payment received from The East Ohio Gas Company has exceeded 30 cents per M. c. f.; further prays for a determination that the Natural Gas Act has been so violated by defendant Hope ever since June 21, 1938; and further prays that the information concerning such matter be made available to The Public Utilities Commission of Ohio and to the City of Cleveland.

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ANSWER OF HOPE NATURAL GAS COMPANY TO AMENDMENT TO COMPLAINT OF THE CITY OF CLEVELAND

Filed February 6, 1939—F. P. C. Docket No. G-100

1 Hope Natural Gas Company, hereinafter called "Hope," for its answer to the "Amendment to Petition and Complaint" filed herein by the City of Cleveland—

1. Admits that the Natural Gas Act was approved and became effective as set forth in paragraph First of said amendment and that said Act contains Sections 1 (b), 4 (a) and (b), 5 (b) and 14 (a) and (b) as set forth in paragraphs First, Second, Third, Fourth, Fifth and Seventh of said amendment, but denies that the statements of the terms and provisions of said Act and said sections thereof as set forth in said paragraphs are either accurate, correct or complete and refers to said Act and said sections thereof for an accurate, correct and complete statement of the law attempted to be summarized in said amendment.

2. (a) Denies the allegations of paragraph Sixth of said amendment in their entirety.

(b) As to the claim that the contract price charged for natural gas by Hope to The East Ohio Gas Company, hereinafter called "East Ohio," was on June 21, 1938 and at all times thereafter excessive, unjust, unreasonable and discriminatory, Hope avers that said price at said times did not and has not in any
2 recent years been sufficient to yield more than a fair return on the fair value of its properties devoted to that service; that since 1921 the price between Hope and East Ohio has repeatedly been investigated by the cities of Cleveland and Akron, Ohio, and by The Public Utilities Commission of Ohio, all of whom have made valuations of Hope's properties, audited its operating expenses and otherwise investigated its properties and operations; that said price was recently approved by said Commission for the years 1933 to 1937 *In re East Ohio Gas Company*, 17 P. U. R. (N. S.) 433; and that after further exhaustive hearings and a comprehensive investigation, including determinations of the value of Hope's properties as of June 30, 1937 and June 30, 1938, analyses of its operations, the ascertainment of its reasonable operating expenses and the fixing of a fair rate of return, said Commission on January 10, 1939 in the case of East Ohio's appeal from the City of Cleveland ordinance referred to in paragraph Seventh of said amendment, known as Cause No. 10,202 on the

docket of said Commission, found that said Hope-East Ohio price, as existing on June 21, 1938 and at all times since, was fair and reasonable and should properly be allowed in the operating expenses of East Ohio for the two-year period of said City of Cleveland ordinance ending June 30, 1939. The conclusion of said Commission hereon is set forth in its order of January 10, 1939 in said Cause No. 10,202, based on its findings and opinion of such date, as follow:

"That the fair and reasonable price to be paid by the East Ohio Ohio Gas Company to The Hope Natural Gas Company for gas supplied and furnished for distribution in the said City of Cleveland, Ohio, is the price of 38.5¢ per one thousand cubic feet, provided by the contract now existing by and between the said Companies, adjusted as provided in said contract for special industrial sales to average 36.15¢ and 36.82¢ per one thousand cubic feet for the years ended June 30, 1937, and June 30, 1938, respectively;".

3. (a) Denies the allegations of paragraph Seventh of said amendment in their entirety.

(b) As to the claim that a determination by this Honorable Commission in accordance with the prayer of said amendment will be of assistance in the case of the City of Cleveland pending before said Public Utilities Commission of Ohio, Hope avers that since the filing of said amendment said Commission on January
10, 1939 rendered its final decision and order in said case,
3 Cause No. 10,202, referred to in paragraph Seventh of said
amendment and in the preceding paragraph 2 (b) of this answer. The inquiry and determination requested by the prayer of said amendment will be of no assistance to either the City of Cleveland or said Public Utilities Commission of Ohio in connection with said Cause No. 10,202.

COMPLAINT OF PENNSYLVANIA PUBLIC UTILITY COMMISSION AGAINST HOPE NATURAL GAS COMPANY

Filed March 23, 1939—F. P. C. Docket No. G-127

1 Pennsylvania Public Utility Commission, complaining of the Hope Natural Gas Company, respectfully alleges for a first ground of complaint:

1. Pennsylvania Public Utility Commission, the Complainant here, is the regulatory body having jurisdiction to regulate rates and charges for the sale of natural gas to consumers within the Commonwealth of Pennsylvania, by virtue of Act No. 43, Pennsylvania Laws, 1937, and Act No. 286, Pennsylvania Laws, 1937 (as amended by Act No. 19, Extraordinary Session, Pennsylvania Laws, 1938), and is a "State Commission", within the meaning of Section II (8) of the Natural Gas Act.

2 2. The Defendant, Hope Natural Gas Company, is a corporation duly organized and existing under the laws of the State of West Virginia. Its principal office is located at 545 William Penn Way, Pittsburgh, in the Commonwealth of Pennsylvania, and it is a wholly owned subsidiary of the Standard Oil Company (New Jersey). Hope Natural Gas Company is engaged in the business of transporting and selling natural gas in interstate commerce, for resale, and is a "natural gas company" within the meaning of Section II (6) of the Natural Gas Act.

3. The Peoples Natural Gas Company is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal office at 545 William Penn Way, Pittsburgh, Pa. The Peoples Natural Gas Company is also a wholly owned subsidiary of the Standard Oil Company (New Jersey), and supplies gas at retail to approximately 124,000 consumers, in 12 counties in the Commonwealth of Pennsylvania.

4. Your Complainant, under its Complaint Docket No. 11380, Sub. No. 20, is conducting an inquiry and investigation for the purpose of determining the fairness and reasonableness of the rates and charges of The Peoples Natural Gas Company. According to its annual report for the year 1937 (the last available), The Peoples Natural Gas Company, under a contract effective May 8, 1937, purchased from Hope Natural Gas Company,
3 for resale to consumers in Pennsylvania, 3,506,013,000 cubic feet of natural gas, at a cost of \$1,349,815.05. The price charged by Defendant, Hope Natural Gas Company, to The

Peoples Natural Gas Company was, and is at the present time, 38½c per thousand cubic feet, delivered to the Pennsylvania-West Virginia state line.

5. The sum paid by The Peoples Natural Gas Company to Defendant, Hope Natural Gas Company, in the year 1937, constituted approximately 17% of the total operating expenses of The Peoples Natural Gas Company for that year. The price charged by Defendant, Hope Natural Gas Company, to The Peoples Natural Gas Company for natural gas resold to consumers in Pennsylvania therefore directly affects the resale price to such consumers. In the proceeding instituted by the Pennsylvania Public Utility Commission against The Peoples Natural Gas Company, at Complaint Docket No. 11380, Sub. No. 20, referred to above, The Peoples Natural Gas Company seeks to include in its operating expenses the cost of natural gas purchased from the Defendant, Hope Natural Gas Company, at the price of 38½¢ per thousand cubic feet. A determination of the fair and reasonable rate at which gas should be sold by Hope Natural Gas Company to The Peoples Natural Gas Company is essential to a determination of the reasonableness of the rates charged by The Peoples Natural Gas Company to consumers in Pennsylvania.

6. On information and belief, it is alleged that the price of 38½¢ per thousand cubic feet charged by the Defendant, Hope Natural Gas Company is unlawful, excessive, unreasonable
4 and discriminatory in that:

(a) The sum charged The Peoples Natural Gas Company exceeds the reasonable cost of producing and transporting the gas, as described above, plus a reasonable and lawful return on the property invested for purposes of such production, transportation and sale;

(b) The sum charged The Peoples Natural Gas Company exceeds the price charged by Defendant to other companies operating in Pennsylvania, in territories similar to that of The Peoples Natural Gas Company, and under similar conditions of use and service, where such other operating companies are not affiliated with the Defendant or the Standard Oil Company (New Jersey).

7. All the natural gas sold by Defendant, Hope Natural Gas Company, to The Peoples Natural Gas Company is produced in West Virginia or states other than Pennsylvania, and transported directly in interstate commerce to the facilities of The Peoples

Natural Gas Company at the Pennsylvania-West Virginia state line. Your Honorable Commission is the only body which can determine whether the price charged by Hope Natural Gas Company to The Peoples Natural Gas Company for the natural gas so transported is just and reasonable, and whether the charge thus made was and is unlawful and contrary to the laws of the United States, as set forth in the Natural Gas Act, Section IV (a).

5 8. The Pennsylvania Public Utility Commission, Complainant, has available records relating to the production, transportation and sale of natural gas in Pennsylvania, and has also available a staff of accountants, engineers and other experts, all of which the Complainant hereby tenders and offers to the Federal Power Commission, for use in accordance with Section 17 (b) of the Natural Gas Act.

9. The filing of this petition has been authorized by a resolution adopted at the Executive Session of the Commission on January 16, 1939.

Wherefore, your Complainant prays that your Honorable Commission:

(a) Investigate the price charged by Defendant, Hope Natural Gas Company, to The Peoples Natural Gas Company for natural gas sold by the latter to the former, at the Pennsylvania-West Virginia state line, and fix the just, fair, and reasonable rate for the same.

(b) Make a determination that the Hope Natural Gas Company has, since June 21, 1938, violated the Natural Gas Act, Section IV (a).

(c) Make available to the Complainant, the Pennsylvania Public Utility Commission, the facts, records, and other relevant matters which your Honorable Commission may acquire in this proceeding.

6 Pennsylvania Public Utility Commission, complaining of the Hope Natural Gas Company, respectfully alleges for a second ground of complaint:

1. The allegations contained in paragraphs 1, 2, 8, and 9 of the first ground of complaint are hereby made a part of the second ground of complaint as fully as though the same were repeated.

2. Fayette County Gas Company is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal office at 800 Union Trust Building, Pittsburgh, Pennsylvania. The Fayette County Gas Company supplies gas at

retail to approximately 16,000 consumers in Fayette and Westmoreland Counties in the Commonwealth of Pennsylvania.

3. Your Complainant, under its Complaint Docket No. 11380, Sub. No. 97, is conducting an inquiry and investigation for the purpose of determining the fairness and reasonableness of the rates and charges of Fayette County Gas Company. According to its annual report for the year 1937 (the last available) Fayette County Gas Company purchased from Hope Natural Gas Company for resale to consumers in Pennsylvania, 849,305,000 cubic feet of natural gas at a cost of $267,531.10. The price charged by Defendant, Hope Natural Gas Company, to Fayette County Gas Company, was and is at the present time 31½¢ per thousand cubic feet, delivered at the Pennsylvania-West Virginia state line.

4. The sum paid by Fayette County Gas Company to Defendant, Hope Natural Gas Company, in the year 1937, con-
7 stituted approximately 35% of the total operating expenses of Fayette County Gas Company for that year. The price charged by Defendant, Hope Natural Gas Company, to Fayette County Gas Company, for natural gas resold to consumers in Pennsylvania, therefore, directly affects the resale price to such consumers. In the proceeding instituted by the Pennsylvania Public Utility Commission against Fayette County Gas Company at Complaint Docket No. 11380, Sub. No. 97, referred to above, the Fayette County Gas Company seeks to include in its operating expenses the cost of natural gas purchased from the Defendant, Hope Natural Gas Company, at the price of 31½¢ per thousand cubic feet. A determination of the fair and reasonable rate at which gas should be sold by Hope Natural Gas Company to Fayette County Gas Company is essential to a determination of the reasonableness of the rates charged by Fayette County Gas Company, to consumers in Pennsylvania.

5. On information and belief it is alleged that the price of 31½¢ per thousand cubic feet charged by the Defendant, Hope Natural Gas Company is unlawful, excessive, and unreasonable, in that the sum charged the Fayette County Gas Company exceeds the reasonable cost of producing and transporting the gas, as described above, plus a reasonable and lawful return on the property invested for purposes of such production, transportation and sale.

6. All the natural gas sold by Defendant, Hope Natural Gas Company, to Fayette County Gas Company is produced in West

Virginia or states other than Pennsylvania, and transported directly in interstate commerce to the facilities of Fayette
8 County Gas Company at the Pennsylvania-West Virginia state line. Your Honorable Commission is the only body which can determine whether the price charged by Hope Natural Gas Company to Fayette County Gas Company for the natural gas so transported is just and reasonable, and whether the charge thus made was and is unlawful and contrary to the laws of the United States, as set forth in the Natural Gas Act, Section IV (a).

Wherefore, your Complainant prays that your Honorable Commission:

(a) Investigate the price charged by Defendant, Hope Natural Gas Company, to Fayette County Gas Company for natural gas sold by the latter to the former, at the Pennsylvania-West Virginia state line, and fix the just, fair, and reasonable rate for the same.

(b) Make a determination that the Hope Natural Gas Company has, since June 21, 1938, violated the Natural Gas Act, Section IV (a).

(c) Make available to the Complainant, the Pennsylvania Public Utility Commission, the facts, records, and other relevant matters which your Honorable Commission may acquire in this proceeding.

9 Pennsylvania Public Utility Commission, complaining of the Hope Natural Gas Company, respectfully alleges for a third ground of complaint:

1. The allegations contained in paragraphs 1, 2, 8, and 9 of the first ground of complaint are hereby made a part of the third ground of complaint as fully as though the same were repeated.

2. The Manufacturers Light and Heat Company is a corporation, organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal office at 800 Union Trust Building, Pittsburgh, Pennsylvania, and supplies gas at retail to approximately 113,000 consumers in the Commonwealth of Pennsylvania.

3. Your Complainant, under its Complaint Docket No. 11380, Sub. No. 18, is conducting an inquiry and investigation for the purpose of determining the fairness and reasonableness of the rates and charges of The Manufacturers Light and Heat Company. According to its annual report for the year 1937 (the last available) The Manufacturers Light and Heat Company purchased from Hope Natural Gas Company for resale to consumers in Pennsylvania 7,444,905,000 cubic feet of natural gas at a cost of $2,345,-

145.11. The price charged by Defendant, Hope Natural Gas Company, to The Manufacturers Light and Heat Company was, and is at the present time 31½¢ per thousand cubic feet, delivered at the Pennsylvania-West Virginia state line.

10 4. The sum paid by The Manufacturers Light and Heat Company to Defendant, Hope Natural Gas Company, in the year 1937, constituted approximately 23½% of the total operating expenses of The Manufacturers Light and Heat Company for that year. The price charged by Defendant, Hope Natural Gas Company, to The Manufacturers Light and Heat Company for natural gas resold to consumers in Pennsylvania, therefore, directly affects the resale price to such consumers. In the proceeding instituted by the Pennsylvania Public Utility Commission against The Manufacturers Light and Heat Company, at Complaint Docket No. 11380, Sub. No. 18, referred to above, The Manufacturers Light and Heat Company seeks to include in its operating expenses the cost of natural gas purchased from the Defendant, Hope Natural Gas Company, at the price of 31½¢ per thousand cubic feet. A determination of the fair and reasonable rate at which gas should be sold by Hope Natural Gas Company to The Manufacturers Light and Heat Company, is essential to a determination of the reasonableness of the rates charged by The Manufacturers Light and Heat Company to consumers in Pennsylvania.

5. On information and belief it is alleged that the price of 31½¢ per thousand cubic feet charged by the Defendant, Hope Natural Gas Company is unlawful, excessive, and unreasonable, in that the sum charged The Manufacturers Light and Heat Company exceeds the reasonable cost of producing and transporting the gas, as described above, plus a reasonable and lawful return on the property invested for purposes of such production, transportation, and sale.

11 6. All natural gas sold by Defendant, Hope Natural Gas Company, to The Manufacturers Light and Heat Company, is produced in West Virginia or states other than Pennsylvania, and transported directly in interstate commerce to the facilities of The Manufacturers Light and Heat Company at the Pennsylvania-West Virginia state line. Your Honorable Commission is the only body which can determine whether the price charged by Hope Natural Gas Company to The Manufacturers Light and Heat Company for the natural gas so transported is just and reasonable, and whether the charge thus made was and is unlawful

and contrary to the laws of the United States, as set forth in the Natural Gas Act, Section IV (a).

Wherefore, your Complainant prays that your Honorable Commission:

(a) Investigate the price charged by Defendant, Hope Natural Gas Company, to The Manufacturers Light and Heat Company for natural gas sold by the latter to the former, at the Pennsylvania-West Virginia state line, and fix the just, fair, and reasonable rate for the same.

(b) Make a determination that the Hope Natural Gas Company has, since June 21, 1938, violated the Natural Gas Act, Section IV (a).

(c) Make available to the Complainant, the Pennsylvania Public Utility Commission, the facts, records, and other relevant matters which your Honorable Commission may acquire in this proceeding.

ANSWER OF HOPE NATURAL GAS COMPANY TO COMPLAINT OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Filed April 25, 1939—F. P. C. Docket No. G-127

1 Defendant, Hope Natural Gas Company, for its answer to the several grounds of complaint set forth in the petition says:

As To The First Ground of Complaint

1. The defendant admits the allegations contained in paragraphs 1 and 2 thereof except the allegation that it is engaged in the business of transporting natural gas in interstate commerce, which it denies.

2. The defendant admits the allegations contained in paragraphs 3 and 4 thereof except it avers that the price of 38½¢ per thousand cubic feet for natural gas specified in the contract between the defendant and The Peoples Natural Gas Company contemplates that the defendant shall deliver gas sold to the Peoples Company at sufficient pressure to carry the gas to consumers' meters of the Peoples Company in its principal marketing area and provides that during the time that it is unable to do this and the Peoples Company finds it necessary to maintain a compressor station at or near the points of delivery, the Peoples Company shall be allowed the sum of 3¢ per thousand cubic feet in reduction of the purchase price. The defendant avers
2 that for some years past The Peoples Natural Gas Company has so maintained a compressor station, and that in settlements between it and the defendant for the gas sold the Peoples Company has been credited with 3¢ per thousand cubic feet against said purchase price of 38½¢.

3. As to paragraph 5 the defendant is without accurate knowledge of the matters therein alleged and for want thereof denies the same.

4. The defendant denies each and several the allegations contained in paragraph 6.

5. The defendant admits the allegations contained in paragraph 7 except the allegations that the natural gas sold by defendant to The Peoples Natural Gas Company is "transported directly in interstate commerce" and that the price charged by defendant to The Peoples Natural Gas Company is for the transportation of natural gas, which it denies.

6. As to paragraphs 8 and 9 the defendant is without knowledge of the matters therein alleged and for want thereof denies the same.

As To The Second Ground of Complaint.

1. The defendant, for its answer to paragraph 1, refers to the admissions and denials contained in the foregoing answer in response to paragraphs 1, 2, 8, and 9 of the First Ground of Complaint and begs leave to incorporate herein as though repeated the answers thereto heretofore made.

2. As to paragraph 2 the defendant is without accurate knowledge of the matters therein alleged and for want thereof denies the same and states that defendant's understanding is that Fayette County Gas Company is a corporation organized and existing under the laws of the State of West Virginia.

3. The defendant admits that the price charged by it to Fayette County Gas Company is and for some time past has been 31½¢ per thousand cubic feet for natural gas delivered at the West Virginia-Pennsylvania state line and that during the year 1937 it sold to Fayette County Gas Company 849,305,000 cubic feet of natural gas for a consideration of $267,531.10, and for want of information denies each and several the other allegations contained in paragraph 3.

3 4. For want of information the defendant denies each and several the allegations contained in paragraph 4.

5. The defendant denies each and several the allegations contained in paragraph 5.

6. The defendant admits the allegations contained in paragraph 6 except the allegations that all the natural gas sold by defendant to Fayette County Gas Company is "transported directly in interstate commerce" and that the price charged by defendant to Fayette County Gas Company is for the transportation of natural gas, which it denies.

As To The Third Ground of Complaint

1. The defendant, for its answer to paragraph 1, refers to the admissions and denials contained in the foregoing answer in response to paragraphs 1, 2, 8 and 9 of the First Ground of Complaint and begs leave to incorporate herein as though repeated the answers thereto heretofore made.

2. As to paragraph 2 the defendant is without accurate knowledge of the matters therein alleged and for want thereof denies the same.

3. The defendant admits that the price charged by it to The Manufacturers Light and Heat Company is and for some time past has been 31½¢ per thousand cubic feet and that during the year 1937 it sold to The Manufacturers Light and Heat Company 7,444,905,000 cubic feet of natural gas for a consideration of $2,345,145.11, denies that said price is for natural gas delivered at the Pennsylvania-West Virginia state line and avers that said deliveries are at Bates Measuring Station near Sedalia, Doddridge County, West Virginia. For want of information the defendant denies each and several the other allegations contained in paragraph 3.

4. For want of information the defendant denies each and several the allegations contained in paragraph 4.

5. The defendant denies each and several the allegations contained in paragraph 5.

6. The defendant admits the allegations contained in paragraph 6 except the allegations that all the natural gas sold by
4 defendant to The Manufacturers Light and Heat Company is "transported directly in interstate commerce" and that the price charged by defendant to The Manufacturers Light and Heat Company is for the transportation of natural gas, which it denies.

1 United States of America

Federal Power Commission

Commissioners: Clyde L. Seavey, Acting Chairman, Claude L. Draper, Basil Manly, John W. Scott.

October 14, 1938.

In re Hope Natural Gas Company

Docket No. G-113.

ORDER INSTITUTING INVESTIGATION

It appearing to the Commission that:

(a) The Hope Natural Gas Company, a corporation organized and existing under the laws of the State of West Virginia, owns and operates gas wells, field and gathering lines, and distribution facilities, located in the State of West Virginia, and transmission pipe lines extending from points in the State of West Virginia to the West Virginia-Ohio state line and to the West-Virginia-Pennsylvania state line;

(b) The Hope Natural Gas Company is engaged in the transportation of natural gas in interstate commerce and the sale of interstate commerce of naural gas for resale for ulimate public consumption for domestic, commercial, industrial, or other use, and is a natural-gas company within the meaning of the Natural Gas Act;

(c) Pursuant to Section 4 (c) of the Natural Gas Act and the Commission's Order No. 53, the Hope Natural Gas Company, on September 3, 1938, filed with the Commission its contracts and agreements covering the sale of natural gas to the East Ohio Gas Company, the Peoples Natural Gas Company, the Manufacturers Light and Heat Company, the Fayette County Gas Company, and the River Gas Company;

(d) In Docket No. G-100, on July 6, 1938, the City of Cleveland, Ohio, and in Docket No. G-101, on July 25, 1938, the City of Akron, Ohio, filed complaints with the Commission against the Hope Natural Gas Company, alleging that the price charged by the Hope Natural Gas Company to the East Ohio Gas Company, on affiliated company, for natural gas sold and delivered at the Ohio River for resale to domestic, commercial and small in-

dustrial consumers in the cities of Cleveland and Akron and elsewhere, is excessive, unjust, unreasonable, greatly in excess of the price charged by the Hope Natural Gas Com-
2 pany to nonaffiliated companies at wholesale for resale to domestic, commercial, and small industrial consumers, and greatly in excess of the price charged by Hope Natural Gas Company to the East Ohio Gas Company for resale to certain favored industrial consumers in Ohio and therefore unduly discriminatory between customers and between classes of service. Said complaints pray for an investigation by this Commission and a finding that the price charged the East Ohio Gas Company by the Hope Natural Gas Company for gas sold and delivered at the Ohio River is excessive, unreasonable, and unjustly discriminatory, and for the fixing of a just, fair and reasonable rate.

(e) The Hope Natural Gas Company, on August 18, 1938, and August 26, 1938, filed its answers to the complaints of the City of Cleveland and the City of Akron, respectively, in which it denies that the price charged by the Hope Natural Gas Company to the East Ohio Gas Company for natural gas for resale to domestic, commercial, and small industrial consumers is excessive, unreasonable or discriminatory;

(f) The Hope Natural Gas Company purchases substantial quantities of the natural gas which it transports, sells and delivers to the East Ohio Gas Company from the Clayco Gas Company, a corporation organized and existing under the laws of the State of West Virginia, and the South Penn Oil Company, a corporation organized and existing under the laws of the State of Pennsylvania, pursuant to the terms and conditions of contracts which were filed with the Commission by the Clayco Gas Company and the South Penn Oil Company on September 3, 1938, in compliance with Section 4 (c) of the Natural Gas Act and the Commission's Order No. 53;

Wherefore, the Commission finds that:

It is necessary and proper, in the public interest, and to aid in the enforcement of the provisions of the Natural Gas Act, that an investigation be instituted by the Commission, on its own motion, into and concerning all rates, charges, classifications, rules, regulations, practices or contracts of the Hope Natural Gas Company, and into and concerning the contracts, agreements and arrangements pursuant to which the Hope Natural Gas Company purchases natural gas;

The Commission, on its own motion, orders that:

(A) An investigation of the Hope Natural Gas Company be and is hereby instituted, for the purpose of enabling the Commission: (1) To determine with respect to said company, whether, in connection with any transportation or sale of natural gas subject to the jurisdiction of the Commission, any rate, charge, or classification demanded, observed, charged or collected or any rule, regulation, practice, or contract affecting such
3 rate, charge, or classification, is unjust, unreasonable, unduly discriminatory, or preferential; and (2) if the Commission shall find that any such rate, charge, classification, rule, regulation, practice, or contract is unjust, unreasonable, unduly discriminatory, or preferential, to determine and fix by appropriate order or orders just, reasonable, and nondiscriminatory
4 rates, charges, classifications, rules, regulations, practices, or contracts to be thereafter observed and in force;

(B) Said investigation shall include an inquiry into and the determination of the reasonableness and lawfulness of the purchase prices paid by the Hope Natural Gas Company for natural gas, including the prices paid to the Clayco Gas Company and the South Penn Oil Company.

By the Commission.

LEON M. FUQUAY, *Secretary*.

1 United States of America

Federal Power Commission

Commissioners: Clyde L. Seavey, Acting Chairman; Claude L. Draper, John W. Scott. Basil Manly, not participating.

June 6, 1939.

In the Matter of Hope Natural Gas Company

Docket No. G-113

ORDER DISMISSING PETITION AND SUPPLEMENT THERETO REQUESTING MODIFICATION OF ORDER INSTITUTING INVESTIGATION

It appearing to the Commission that:

(a) On October 14, 1938, the Commission on its own motion, adopted an order instituting an investigation of the Hope Natural Gas Company for the purpose of enabling the Commission (1) to determine, with respect to said company, whether, in connection with any transportation or sale of natural gas subject to the jurisdiction of the Commission, any rate, charge, or classification demanded, observed, charged, or collected or any rule, regulation, practice, or contract affecting such rate, charge, or classification, is unjust, unreasonable, unduly discriminatory, or preferential; and (2) if the Commission shall find that any such rate, charge, classification, rule, regulation, practice, or contract is unjust, unreasonable, unduly discriminatory, or preferential, to determine and fix by appropriate order or orders just, reasonable and nondiscriminatory rates, charges, classifications, rules, regulations, practices, or contracts to be thereafter observed and in force;

(b) On January 9, 1939, the City of Cleveland, Ohio, filed with the Commission a petition praying that the Commission modify its order of October 14, 1938, to include an investigation whether Hope Natural Gas Company has violated the Natural Gas Act by charging to the receiving from The East Ohio Gas Company an unreasonable, unjust and discriminatory rate for natural gas delivered at the Ohio River on and since June 21, 1938, the effective date of the Natural Gas Act, at least insofar as the average charge made by Hope Natural Gas Company and payment re-

ceived from The East Ohio Gas Company has exceeded 30 cents per m. c. f.; said petition prays for a determination by the Commission that the Natural Gas Act has been so violated by Hope Natural Gas Company ever since June 21, 1938, and prays that the information concerning such matter be made available to The Public Utilities Commission of Ohio and to the City of Cleveland;

(c) On February 6, 1939, the Hope Natural Gas Company filed with the Commission its answer to said petition of the City of Cleveland, denying that the contract price charged for natural gas to The East Ohio Gas Company was on June 21, 1938, and at all times thereafter excessive, unjust, unreasonable, and discriminatory, and calling attention to proceedings before The
2 Public Utilities Commission of Ohio approving said contract price; said answer avers that the inquiry and determination requested in the petition filed by the City of Cleveland will be of no assistance either to the City of Cleveland or to The Public Utilities Commission of Ohio;

(d) On March 10, 1939, the City of Cleveland filed a supplement to its petition for a modification of the order of the Commission of October 14, 1938, reciting in said supplement that The Public Utilities Commission of Ohio has entered an order in the proceeding pending before it, that the decision of The Public Utilities Commission has been appealed to the Supreme Court of Ohio, and averring that an investigation and determination as prayed for in the petition should be of assistance to the City of Cleveland in the Supreme Court of Ohio and to the City of Cleveland and The Public Utilities Commission of Ohio on remand of the orders of said Public Utilities Commission of Ohio;

(e) On April 8, 1939, the Hope Natural Gas Company filed with the Commission its answer to said supplement to the petition of the City of Cleveland, alleging that the investigation and determination prayed for in the petition of the City of Cleveland will not be of any assistance to the City of Cleveland in the Supreme Court of Ohio;

It further appearing to the Commission that:

(f) The investigation of the Hope Natural Gas Company now in progress in this proceeding will include the compilation of information and data which will be relevant to the determination of just, reasonable, and nondiscriminatory rates and charges since the effective date of the Natural Gas Act, and

The Commission, having considered the said petition and supplement thereto of the City of Cleveland and the answers thereto of the Hope Natural Gas Company, finds that:

It will not be necessary to a full exercise of the power and authority of this Commission that said order of investigation, adopted herein on October 14, 1938, be amended or modified as requested by the City of Cleveland;

The Commission orders that:

The petition of the City of Cleveland, filed on January 9, 1939, praying for a modification of the order of the Commission of October 14, 1938, and the supplement to said petition, filed on March 10, 1939, be and they are hereby dismissed.

By the Commission.

LEON M. FUQUAY, *Secretary*.

1

United States of America

Federal Power Commission

Commissioners: Clyde L. Seavey, Chairman; Claude L. Draper, Basil Manly, Leland Olds, John W. Scott.

October 3, 1939.

City of Cleveland, complainant
v.
Hope Natural Gas Company, defendant

Docket No. G-100

City of Akron, complainant
v.
Hope Natural Gas Company, defendant

Docket No. G-101

In the Matter of Hope Natural Gas Company

Docket No. G-113

Pennsylvania Public Utility Commission, complainant
v.
Hope Natural Gas Company, defendant

Docket No. G-127

ORDER FIXING DATE OF HEARING

It appearing to the Commission that:

(a) In Docket No. G-100, on July 6, 1938, the City of Cleveland, Ohio; and in Docket No. G-101, on July 25, 1938, the City of Akron, Ohio, filed complaints with the Commission against the Hope Natural Gas Company, alleging that the price charged by the Hope Natural Gas Company to The East Ohio Gas Company, an affiliated company, for natural gas sold and delivered at the Ohio River for resale to domestic, commercial, and small industrial consumers in the cities of Cleveland and Akron and elsewhere, is excessive, unjust, unreasonable, greatly in excess of the price

charged by the Hope Natural Gas Company to nonaffiliated companies at wholesale for resale to domestic, commercial, and small industrial consumers, and greatly in excess of the price
2 charged by Hope Natural Gas Company to The East Ohio Gas Company for resale to certain favored industrial consumers in Ohio and therefore unduly discriminatory between customers and between classes of service. Said complaints prayed for an investigation by this Commission and a finding that the price charged The Eat Ohio Gas Company by the Hope Natural Gas Company for gas sold and delivered at the Ohio River is excessive, unreasonable, and unjustly discriminatory, and for the fixing of a just, fair, and reasonable rate;

(b) On August 18, 1938, and August 26, 1938, the Hope Natural Gas Company filed its answers to the complaints of the City of Cleveland and the City of Akron in Docket No. G-100 and Docket No. G-101, respectively, in which it denied that the price charged by the Hope Natural Gas Company to The East Ohio Gas Company for natural gas for resale to domestic, commercial, and small industrial consumers is excessive, unreasonable, or discriminatory;

(c) In Docket No. G-113, on October 14, 1938, the Commission, on its own motion, adopted an order instituting an investigation of the Hope Natural Gas Company for the purpose of enabling the Commission (1) to determine, with respect to said company, whether, in connection with any transportation or sale of natural gas subject to the jurisdiction of the Commission, any rate, charge, or classification demanded, observed, charged, or collected or any rule, regulation, practice or contract affecting such rate, charge, or classification, is unjust, unreasonable, unduly discriminatory, or preferential; and (2) if the Commission shall find that any such rate, charge, classification, rule, regulation, practice, or contract is unjust, unreasonable, unduly discriminatory, or preferential, to determine and fix by appropriate order or orders just, reasonable and nondiscriminatory rates, charges, classifications, rules, regulations, practices, or contracts to be thereafter observed and in force;

(d) Said order instituting an investigation was duly served upon the Hope Natural Gas Company and was received by said company on October 15, 1938;

(e) In Docket No. G-127, on March 23, 1939, the Pennsylvania Public Utility Commission filed a complaint with the Commission against the Hope Natural Gas Company, alleging that the prices charged by the Hope Natural Gas Company to The Peoples

Natural Gas Company, the Fayette County Gas Company, and The Manufacturers Light and Heat Company, for natural gas sold and delivered at points on the Pennsylvania-West Virginia state line for resale in the State of Pennsylvania, are unlawful, excessive, unreasonable, and discriminatory, and said complaint prays for an investigation by this Commission of said prices and for the fixing of just, fair, and reasonable rates;

(f) On April 25, 1939, the Hope Natural Gas Company filed its answer to the complaint of the Pennsylvania Public
3 Utility Commission in Docket No. G-127, in which it denied that the prices charged by the Hope Natural Gas Company to The Peoples Natural Gas Company, the Fayette County Gas Company, and The Manufacturers Light and Heat Company are unlawful, excessive, unreasonable, and discriminatory;

(g) Hope Natural Gas Company has in course of preparation a restatement of the cost of its property and plant and representatives of the Commission have been informed that such restatement studies are substantially completed and will be entirely completed within a comparatively short time;

The Commission *orders* that:

(A) A public hearing in these proceedings be held commencing on December 4, 1939, at ten o'clock a. m., in the Hearing Room of the Federal Power Commission, Hurley-Wright Building, 1800 Pennsylvania Avenue, N. W., Washington, D. C., and at said public hearing, pursuant to the provisions of Sec. 50.63 of the Provisional Rules of Practice and Regulations Under the Natural Gas Act, the order of procedure will be for the Hope Natural Gas Company to open and close these proceedings with the presentation of its evidence relevant and material to the question whether, in connection with any transportation or sale of natural gas subject to the jurisdiction of the Commission, any rate, charge, or classification demanded, observed, charged, or collected by said Hope Natural Gas Company, or any rule, regulation, practice or contract affecting such rate, charge, or classification, is unjust, unreasonable, unduly discriminatory, or preferential:

(B) Docket Nos. G-100, G-101, G-113, and G-127 be and they are hereby consolidated for purposes of hearing thereon;

(C) Hope Natural Gas Company is hereby requested to submit at said hearing the restatement of the cost of its property and plant mentioned in paragraph (g) of this order.

By the Commission.

LEON M. FUQUAY, *Secretary.*

STATEMENT OF COMPANY COUNSEL ON ORDER OF PROOF

Transcript pages 26–28

* * *

26 Mr. Cockley. There is one preliminary matter, if the Examiner please, and that has to do with the question raised by the Commission's order of October 3, 1939, which consolidated all of these complaints with an investigation by the Commission on its own motion, and directed, in accordance with the Provisional Rules of the Commission under the Natural Gas Act, and I am quoting this:

"That the order of procedure will be for the Hope Natural Gas Company to open and close these proceedings with the presentation of its evidence."

The Natural Gas Act, of course, does not place the burden of proof in a technical sense upon the company unless the company is asking for an increase of rates or a change of rates,
27
or is asking for some other relief. The Hope Company in this case has not as yet, at least, made any application for an increase of rates. It has not petitioned for any relief. Complaints have been filed against it by the cities of Cleveland and Akron, and by the Pennsylvania Commission, charging in the most general terms that their rates are unreasonable and discriminatory. Those complaints do not advise the Hope Company in any respect in which it is claimed that the rates are unreasonable and discriminatory—just a general charge.

Now, we are not disposed to quarrel with the order of the Commission designating that we go forward first, although it seems to us a little unusual to require the defendant company to come in and present evidence to refute charges that have not yet been substantiated or have not even been specified with sufficient definiteness that any one can tell what the charges are. We assume that the Commission in making that order is doing it pursuant to a discretion that it has to conduct its own investigation in any way that it sees fit, and if it wants to conduct its investigation by designating the order of proof, without changing the burden of proof in any respect, we see no objection and will be glad to cooperate with that method of procedure, but we do want to have it noted that the Hope Company itself is not thereby, by going forward
28
in the first instance, is not thereby assuming any burden of proof, because it does not lie upon the Hope Company under

the Act, but that it is reserving all of its rights under the Act and under the law as it has been interpreted by the courts many times that the burden of proof is always upon the man who makes the charge and not upon the man who is defending it. With that reservation, we are willing to proceed in accordance with the orders of the Commission.

* * *

1 United States of America

Federal Power Commission

Commissioners: Leland Olds, Chairman, Claude L. Draper, Basil Manly, John W. Scott and Clyde L. Seavey.

October 1, 1940.

City of Cleveland, complainant
v.
Hope Natural Gas Company, defendant

Docket No. G-100

City of Akron, complainant
v.
Hope Natural Gas Company, defendant

Docket No. G-101

In the Matter of Hope Natural Gas Company

Docket No. G-113

Pennsylvania Public Utility Commission, complainant
v.
Hope Natural Gas Company, defendant

Docket No. G-127

ORDER FIXING DATE FOR HEARING ON MOTION FOR AN IMMEDIATE ORDER REDUCING RATES

It appearing to the Commission that:

(a) On July 6, 1938, a complaint was filed by the City of Cleveland against the rate charged by defendant Hope Natural Gas Company to its affiliate, The East Ohio Gas Company, for gas produced in the State of West Virginia and delivered at the Ohio River for transportation to and resale in Cleveland, and it prayed for an investigation by the Federal Power Commission, a finding that said River Rate is excessive, unreasonable, and unjustly discriminatory, and for the fixing of a just, fair, and reasonable rate;

(b) On July 25, 1938, a complaint was filed by the City of Akron against Hope Natural Gas Company, alleging that the price charged by the Hope Natural Gas Company to The East

Ohio Gas Company, an affiliated company, for natural gas
2 sold and delivered at the Ohio River for resale to domestic, commercial and industrial consumers in the City of Akron and elsewhere, is excessive, unjust, unreasonable, greatly in excess of the price charged by the Hope Natural Gas Company nonaffiliated companies at wholesale for resale to domestic, commercial and industrial consumers, and greatly in excess of the price charged by Hope Natural Gas Company to The East Ohio Gas Company for resale to certain favored industrial consumers in Ohio and therefore unduly discriminatory between customers and between classes of service;

(c) On August 18, 1938 and August 26, 1938, the Hope Natural Gas Company filed its answers to the complaints of the City of Cleveland and the City of Akron, respectively, in which it denied that the price charged by the Hope Natural Gas Company to The East Ohio Gas Company for natural gas for resale to domestic, commercial, and industrial consumers is excessive, unreasonable, or discriminatory;

(d) On October 14, 1938, this Commission, on its own motion, ordered an investigation of the Hope Natural Gas Company for the purpose of enabling the commission:

"(1) To determine with respect to said company, whether, in connection with any transportation or sale of natural gas subject to the jurisdiction of the Commission, any rate, charge, or classification demanded, observed, charged or collected or any rule, regulation, practice, or contract affecting such rate, charge, or classification, is unjust, unreasonable, unduly discriminatory, or preferential; and (2) if the Commission shall find that any such rate, charge classification, rule, regulation, practice, or contract is unjust, unreasonable, unduly discriminatory, or preferential, to determine and fix by appropriate order or orders just, reasonable, and nondiscriminatory rates, charges, classifications, rules, regulations, practices, or contracts to be thereafter observed and in force;

"Said investigation shall include an inquiry into and the determination of the reasonableness and lawfulness of the purchase prices paid by the Hope Natural Gas Company for natural gas, including the prices paid to the Clayco Gas Company and the South Penn Oil Company."

(e) On March 23, 1939, the Pennsylvania Public Utility Commission filed a complaint with the Commission against the Hope Natural Gas Company, alleging that the prices charged by the

Hope Natural Gas Company to The Peoples Natural Gas Company, Fayette County Gas Company, and the Manufacturers
3 Light and Heat Company, for natural gas sold and delivered at points on the Pennsylvania-West Virginia State line for resale in the State of Pennsylvania, are unlawful, excessive, unreasonable, and discriminatory, and prayed for an investigation by this Commission of said prices and for the fixing of just, fair, and reasonable rates, and that on April 25, 1939, the Hope Natural Gas Company filed its answer to the complaint of the Pennsylvania Public Utility Commission;

(f) On October 3, 1939, the Commission entered an order consolidating Docket Nos. G–100, G–101, G–113, and G–127 for hearing and fixed the date for the first hearing which was subsequently postponed to April 1, 1940, upon the request of Counsel for the Hope Natural Gas Company;

(g) Since April 1, 1940, hearings have been held from time to time in Clarksburg, West Virginia, and at those hearings the defendant-respondent company has appeared by counsel, has had full opportunity to be heard, has offered and presented both oral and documentary evidence, has been subjected to cross-examination, has engaged in redirect examination, and has presented all the evidence relating to the issues herein which it chose to present in opening the proceedings as directed by the Commission's order of October 3, 1939;

(h) On April 2, 1940, the Commission granted petitions to intervene filed by the Public Service Commission of West Virginia and the State of West Virginia;

(i) On September 23, 1940, Counsel for the Cities of Cleveland and Akron, Ohio, filed a "Motion for an Immediate Order Reducing Rates", which had a certificate attached showing service by mail upon all parties;

(j) In the motion it is moved "that the Commission enter an immediate order for a Hope-East Ohio rate reduction of approximately \$662,000 per year, and that the Commission fix just and reasonable rates for gas sold by Hope Natural Gas Company to The East Ohio Gas Company for natural gas delivered at the Ohio River for resale to consumers in Cleveland, Akron, and elsewhere effecting said reduction upon the Hope company's own testimony herein, without prejudice to the power and authority of the Commission to find said reduced rates excessive upon the testimony of the Commission's staff to be hereafter offered in evidence, and without prejudice to the power and authority

of the Commission to further reduce said River Rates upon its own motion or otherwise at any time hereafter, upon good cause shown; and that the Commission proceed immediately to fix by order dates for briefs and oral argument upon this motion.";

4. (k) The specific allegations or grounds for said motion are more fully set out therein and the same are hereby incorporated herein and made a part hereof;

The Commission, therefore, orders that:

(A) The "Motion for an Immediate Order Reducing Rates" be and it is hereby set down for hearing before the Commission, *en banc*, on November 20, 1940, at 10:00 a. m., in the hearing room of the Federal Power Commission, 1800 Pennsylvania Avenue, N. W., Washington, D. C., at which time counsel for the respective parties may present oral argument;

(B) Main briefs in support of or in opposition to said motion shall be filed on or before November 1, 1940; reply briefs shall be filed within ten days after November 1, 1940.

By the Commission.

LEON M. FUQUAY, *Secretary.*

1 United States of America

Federal Power Commission

Commissioners: Leland Olds, chairman; Claude L. Draper, Basil Manly, John W. Scott and Clyde L. Seavey.

December 20, 1940.

City of Cleveland, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-100

City of Akron, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-101

In the Matter of Hope Natural Gas Company

Docket No. G-113

Pennsylvania Public Utility Commission, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-127

ORDER DENYING MOTION FOR AN IMMEDIATE ORDER REDUCING RATES

Upon consideration of the joint "Motion for an Immediate Order Reducing Rates" for natural gas sold at wholesale by Hope Natural Gas Company to the East Ohio Gas Company, filed by the Cities of Cleveland and Akron, Ohio, on September 23, 1940; the main and reply briefs in support of the joint Motion filed by the Cities; the main and reply briefs and exceptions to the Cities' proposed findings filed in opposition by Hope Natural

Gas Company; the exceptions, objections and joint motions of the State of West Virginia and the Public Service Commission of West Virginia filed on November 20, 1940, with respect to the Cities' Motion; the oral arguments on the Cities' Motion presented to the Commission siting en banc on November 20, 1940, by counsel on behalf of the Cities, the Company, the State of West Virginia and the Public Service Commission of West Virginia and the entire evidence adduced of record in the above-entitled proceedings;

The Commission finds that:

There is insufficient evidence of record, at this time, to support the prayer for relief requested by the movants;

2 The Commission orders that:

(A) The joint motion of the Cities of Cleveland and Akron, Ohio, for an immediate order reducing rates for natural gas sold at wholesale by the Hope Natural Gas Company to the East Ohio Gas Company be and it is hereby denied without prejudice;

(B) This order is not to be construed as a determination of any of the issues in the pending principal proceedings involving the reasonableness of the interstate wholesale rates of the Hope Natural Gas Company, but is confined to the merits of the present joint motion filed by the Cities of Cleveland and Akron, Ohio.

By the Commission.

LEON M. FUQUAY, *Secretary*.

2180 ## STATEMENT OF COMMISSION COUNSEL ON THE ISSUES

Transcript pages 2180-2182

Mr. Springer. Mr. Examiner, I should like to make an opening statement at this time.

In order that there will be no doubt about the issues in this rate case, I should like to outline what will be shown by the facts, which the Commission's staff will present beginning today.

Considering the rate base first—we will present evidence which will show that the Hope Natural Gas Company's prudent investment or adjusted book cost, in other than distribution property and before allocation, as of December 31, 1938, is approximately $51,200,000. Hope Natural Gas Company's book reserve for depreciation and depletion, excluding specific distribution system reserves, totaling $39,320,000, appears to be excessive as a measure of the accrued depreciation and depletion in the Company's property, so we will present evidence, based upon the straight-line and production depreciation methods, to show that the depreciation and depletion reserve requirement relating to the above property is about $23,500,000, and that this is the best measure of the accrued depreciation and depletion in the property. It may be noted that the excess of the Company's book reserve over the reserve requirement is about $15,800,000, which might be considered capital contributions made by consumers in the past and the total book reserve might be deducted equitably in determining the rate base.

2181 We have exposed the fundamental defects in the Hope Natural Gas Company's trended original cost, its estimated reproduction cost new, and its claimed "observed-accrued" depreciation by cross-examination, but we may elect to present concise rebuttal evidence on these three subjects in addition.

The Company's misnamed, but claimed "original cost" contains about $17,000,000 which the Company did not choose to capitalize in the past by election of the management, but which it now attempts to capitalize retroactively. We disagree on principle with this attempt to place multiple charges on the consumers and we will recommend to the Commission that the rate base in this case be predicated upon the only reliable evidence which the record will contain, that is, the Company's prudent investment or adjusted book cost of approximately $51,200,000, in other than distribution property and before allocation, less the depreciation and depletion

reserve requirement of approximately $23,500,000, plus working capital of about $2,000,000, which produces a depreciated rate base of about $29,700,000 for the end of 1938. Of course, we will present evidence to bring all these figures up to date.

We will present the facts which will enable the Commission to determine: (1) Whether the Company's gas reserves are adequate; (2) whether the Company pays a reasonable price for the
2182 great quantity of gas which it purchases; and (3) whether Hope Natural Gas Company receives a fair price for the gasoline extracted from its gas by its affiliate, Hope Construction and Refining Company. Until the Company presents more convincing proof of the portion of its investment in its 600,000 unoperated acres, which is devoted to its gas service and is useful in the reasonably near future, we will recommend that the entire amount be excluded from the rate base and that the related delay rentals be excluded from the allowable operating expenses. We will also present appropriate evidence showing the revenues, expenses and resulting operating income of the Hope Natural Gas Company.

We will present facts relevant to the rate of return which is fair and reasonable for the Hope Natural Gas Company.

We intend to present evidence to show the segregation of the Company's revenues, operating expenses, depreciation, depletion and return as between its intrastate and interstate business.

Considering Hope's operating income and applying a reasonable rate of return to the recommended depreciated prudent investment rate base, there is indicated a substantial reduction in the interstate wholesale rates of the Hope Natural Gas Company.

1 United States of America

Federal Power Commission

Commissioners: Leland Olds, Chairman, Claude L. Draper, Basil Manly, John W. Scott and Clyde L. Seavey.

October 3, 1941.

City of Cleveland, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-100

City of Akron, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-101

In the Matter of Hope Natural Gas Company

Docket No. G-113

Pennsylvania Public Utility Commission, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-127

ORDER (1) DENYING APPLICATION FOR SERVICE OF TRIAL EXAMINER'S REPORT AND (2) GRANTING ORAL ARGUMENT

Upon application of Hope Natural Gas Company, filed September 30, 1941, requesting, as separate application, (1) that any trial examiner's report in this proceeding be served upon it, and (2) that it be granted oral argument before the Commission en banc;

It appearing to the Commission that:

(a) Section 19 (a) of the Natural Gas Act provides in part as follows:

Any person, State, municipality, or State commission aggrieved by an order issued by the Commission in a proceeding under
2 this Act to which such person, State, municipality, or State commission is a party may apply for a rehearing within thirty days after the issuance of such order. The application for rehearing shall set forth specifically th ground or grounds upon which such application is based. Upon such application the Commission shall have power to grant or deny rehearing or to abrogate or modify its order without further hearing * * *;

(b) Under this provision of the Act any aggrieved party, in its application for rehearing, may take exception to any or all findings of the Commission, its failure to make necessary findings, or any order or conclusions embodied in the opinion or order of the Commission;

(c) Such statutory procedure provides a direct and adequate means of excepting to any part of the Commission's order by which a party deems himself aggrieved and avoids the cumbersome and frequently futile procedure of taking exceptions to the merely advisory findings and conclusions of the examiner, many of which may not be accepted by the Commission or be incorporated in the Commission's order.

Wherefore, the Commission orders that:

(A) Applicant's request for service upon it of any trial examiner's report which may be made herein be and the same is hereby denied;

(B) Oral argument on the issues raised at the hearing herein be had before the Commission, en banc, on October 27, 1941, at 9:45 a. m., in the Hearing Room of the Commission, 1800 Pennsylvania Avenue NW., Washington, D. C.

By the Commission.

LEON M. FUQUAY, *Secretary*.

1 United States of America

Federal Power Commission

Commissioners: Leland Olds, Chairman, Claude L. Draper, Basil Manly, John W. Scott and Clyde L. Seavey.

November 4, 1941.

City of Cleveland, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-100

City of Akron, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-101

In the Matter of Hope Natural Gas Company,
Docket No. G-113

Pennsylvania Public Utility Commission, complainant

v.

Hope Natural Gas Company, defendant

Docket No. G-127

ORDER DENYING APPLICATION FOR REHEARING

Upon consideration of the application filed on October 23, 1941, by Hope Natural Gas Company requesting reconsideration and rehearing with respect to the Commission's order of October 3, 1941, which denied the application for service of the Trial Examiner's Report, but granted oral argument;

The Commission finds that:

Hope Natural Gas Company has been fairly and fully advised of the legal and factual issues in these proceedings; it has had full opportunity to test, explain or refute the evidence of record and to meet the legal and factual issues involved, both by brief and oral argument before the entire Commission; and will have available,

to it the procedure recited in paragraphs (a), (b), and (c) of the Commission's order of October 3, 1941;

Wherefore, the Commission orders that:

Applicant's request for a rehearing with respect to the Commission's order of October 3, 1941, be and it is hereby denied.

By the Commission.

LEON M. FUQUAY, *Secretary*.

1 United States of America

Federal Power Commission

Commissioners: Leland Olds, Chairman, Claude L. Draper, Basil Manly, and Clyde L. Seavey.

July 7, 1942.

City of Cleveland, complainant

vs.

Hope Natural Gas Company, defendant
Docket No. G–100

City of Akron, complainant

vs.

Hope Natural Gas Company, defendant
Docket No. G–101

Pennsylvania Public Utility Commission, complainant

vs.

Hope Natural Gas Company, defendant
Docket No. G–127

In the Matter of Hope Natural Gas Company,
Docket No. G–113

ORDER DENYING PETITION FOR REHEARING AND STAY

Upon consideration of the petition of Hope Natural Gas Company filed June 24, 1942, for rehearing and stay with respect to the Commission's findings as to lawfulness of past rates and order reducing rates of that Company entered on May 26, 1942, and the Commission's Opinion No. 76; and upon further consideration of all previous orders in these proceedings, the evidence of record, the briefs and oral arguments, and adhering to its Opinion No. 76, findings as to lawfulness of past rates and order of May 26, 1942, reducing rates;

The Commission finds that:

No new facts have been presented or alleged in the petition for rehearing which would justify a reversal or revision of the Commission's Opinion No. 76, findings as to lawfulness of past rates and order reducing rates, entered May 26, 1942, and no principles

of law are stated in the petition for rehearing and stay which were not fully considered by the Commission before it rendered said opinion, findings and order;

The Commission, therefore, orders that:

The petition for rehearing and stay be and it is hereby denied.

By the Commission.

LEON M. FUQUAY, *Secretary*.

TESTIMONY OF HOPE WITNESS RHODES ON ESTIMATED COST TO REPRODUCE HOPE'S PLANT

Transcript pages 529–761

* * *

529 Cross-examined by Mr. Springer:

Q. Mr. Rhodes, you are a stockholder in Ford, Bacon & Davis, are you not?

530 A. That is correct.

Q. And you are also a stockholder in the Standard Oil Company (New Jersey)?

A. Yes.

Q. And the Ford, Bacon & Davis firm has a contract for valuation and other services, I understand, with the Standard Oil Company of New Jersey and its subsidiaries, has it not?

A. It has a contract with one of its subsidiaries, which performs services for various natural gas companies, namely, Gas Company, Incorporated.

Q. Do you know the annual income derived from that contract?

A. I do not recall what it is; no.

Q. It is substantial, is it not?

A. Oh, yes. The Standard Oil Company of New Jersey is one of our more important clients.

Q. Are you directly responsible for unit costs of all construction and overheads used in this reproduction cost new estimate?

A. I specified the principles to be followed in determining these unit costs, the methods of ascertaining labor rates that would have to be paid, the prices that would have to be paid for materials, and I sat in and consulted freely and continuously with the men

531 responsible for the detail work of the various classes of construction.

Q. Did you use costs observed or used on other projects which you listed on pages 6 and 7 of Exhibit 16, to arrive at the unit cost used in the reproduction cost new estimate here?

* * *

Q. That is on pages 6 and 7 of Exhibit 16 A.

A. The costs in some of these projects and also the more than 45 years of experience of Ford, Bacon & Davis were called upon, as well as my own personal experience, extending over 35 years—they represent a composite judgment which is based on all of that experience.

Q. Have you had personal experience in a particular construction project which is similar to the Hope System?

A. Yes.

Q. Will you describe that~~, please~~?

A. The construction of the Southern Natural Gas Corporation's system as a whole was handled under my immediate direction in the field, and simultaneously the pipe line construction of the Mississippi River Fuel Corporation.

532

Q. Can you give us the dollar amount of the construction, approximately?

A. About 35 million dollars in that particular sphere of operations that were under my direction, which was carried out in the period of about a year.

Q. Exactly what did you do in that construction project?

A. On the Southern Natural Gas Company's construction project, Ford, Bacon & Davis were the agents of the owners, the agents for the Company. The Company itself had previously decided to carry out the construction itself, got into difficulties, and called us in to help them and act as their agents. The company's own organization carried on relations largely with public authorities and matters of purely a corporate nature. They carried on the immediate relations with the bankers in getting the money, and I was responsible for everything else.

Q. You mean that you were the resident engineer?

A. I was more than that: I was the officer of Ford, Bacon & Davis acting and functioning as agents for the Southern Natural Gas Corporation in that entire operation.

Q. Did you supervise the acquiring of the right of way?

A. Not personally; no.

533

Q. How many days did you spend in the field on the project?

A. The work of directing between these two jobs, some $35,000,000 in one year, is essentially an executive job. I spent probably a third of my time away from the office on various construction operations where there was some difficulty or something requiring special attention.

Q. Did you have prepared a reasonably accurate analysis and summary of the costs of construction of natural gas projects which you say you supervised?

A. The accounting on that project was all handled by men working under my direction. The men in charge of the accounting later continued with the company as the accounting department of the

company after curtailing, of course, the additional men required in the construction period.

I had no specific analysis of the cost of construction made in the form of the unit costs of all operations. I did purchase in our office, without other officers—we did purchase the pipe. I let most of the contracts for the construction and the portions of the construction that were built with our force account. I organized the personnel to build those portions of the property.

Q. Have you ever had responsible charge of construction of natural gas properties in West Virginia?

A. The only construction work with which I have been
534 connected in West Virginia was the construction of a 60-mile pipe line to carry liquid propane from the Kentucky state line to South Charleston, West Virginia.

Q. Is that construction comparable with the construction required in a natural gas pipe line system?

A. The methods of construction are the same; yes.

Q. Are the materials?

A. They are the same; yes.

Q. Exactly what did you do on that project?

A. Well, as the——

Q. (Interrupting.) You were the Chief Executive?

A. I was the principal executive in Ford, Bacon & Davis on construction matters. I personally negotiated and secured the contract for the building of the line, I approved the specifications, discussed the planning of the line with the owners, on account of the special features of the liquid to be carried, and otherwise spent comparatively little time on the line.

Q. Have you had responsible charge of the construction of natural gas properties in Pennsylvania?

A. Only in an executive capacity.

Q. And in Ohio?

A. In Ohio the same is true. Pipe line construction—it should be designated as that, because our only construction work in Ohio along the lines of the natural gas business was a
535 gasoline pipe line from Toledo to Detroit.

Q. Was that construction project comparable to a natural gas system construction?

A. The methods of construction and the materials used are identical.

Q. What other natural gas construction have you supervised in the Appalachian area?

A. There are no important projects other than those which have been named.

Q. And for all of these projects, you have not analyzed the costs of construction for purposes to be used in this reproduction cost new exhibit 16–A to I, inclusive?

A. On the construction work which we ourselves have carried out, namely this liquid propane line in West Virginia and on a gasoline pipe line in Pennsylvania, and this gasoline pipe line from Toledo to Detroit, together with a considerable number of other projects, we have analyzed the costs. The particular ones that were named were actually constructed by us, and of course, we have all of the cost records available.

Q. And did you use them in preparing the reproduction cost new estimate in this case?

A. We used them in guiding our judgment as to what was the proper performance of men and machines in West Virginia.

536 Q. Are those analyses available for the Federal Power Commission engineers?

A. The analyses which enable one to form his judgment and to reflect the considerable experience of an engineering organization such as ours, I have not considered as being appropriate material for working papers. They are not in convenient form to be understood by others. Analyses are, in general, in such work, not carried to the finished condition of the completion of working papers that are to be prepared for examination by others. Incidentally, in connection with those papers are costs and information with respect to the construction of other lines that were given to us in confidence and we cannot make them available to anybody.

Q. Do you mean that we must read your mind, that we cannot have access to the foundation of the reproduction cost new estimate?

A. We should be very glad to show a competent, experienced engineer, familiar with natural gas construction, the process which we went through in arriving at our final conclusion as to performance, but I should want to point out that those working papers are not complete and that there are some parts of it which were given us in confidence, that we could not show.

Q. Can you tell us now what weight you gave to those cost analyses in preparing this estimate of reproduction cost

537 of the Hope System?

A. Well, with respect to pipe lines, these cost analyses compared with experience and supervising the construction and estimating in advance the cost of some several thousand of miles

of pipe lines, that experience had to be used in analyzing the costs. The costs of lines are affected by more things than appear on the face of it. I have clearly in mind two construction jobs which we had cost records on, one of which was constructed in ordinary weather and the other of which was constructed in just about the wettest period that has ever existed in the territory involved. The lines were of the same size, the country was very similar, but the one built in wet weather cost fully twice as much as the one built in dry weather. I am talking now about the laying costs.

Now, in analyzing these various costs, it is necessary to know the facts, or you can be very badly misled, and incidentally this wet weather experience of ours was ignored, except to the extent of measuring the possible effects of the normal rainfall in country such as West Virginia.

Q. Then, in your assumed construction period of three years for your reproduction cost estimated of the Hope System, that was related to normal weather conditions of West Virginia?

A. That is correct; the normal amount of rainfall, and assumed no attempt to work at all in the worst two months of
538 the winter, generally January and February.

Q. Are the laying costs which you used in reproduction cost new comparable to the described costs of wet-weather construction experience that you have just named?

A. The reproduction costs or cost of laying pipe lines, which is what we are talking about, is based on weather conditions that are normally to be expected in ten months of the year in West Virginia.

Q. Is that lower or higher than the experience of the wet weather conditions which you described previously?

A. Much lower.

Q. Then you will make available the average cost analyses to our engineers?

A. I will be glad to have those analyses explained to an experienced pipe line engineer, but it is understood, however, as I explained before, they are nebulous, and some of it cannot be shown.

Q. Nebulous and hypothetical?

A. Not at all hypothetical. The costs are facts, and this valuation is based on facts.

Q. Nebulous facts?

A. No. I said the working papers are not complete to the extent that working papers need to be carried to be made available in the independent examinations of others. You do not

539 label things. They serve your purpose and then you are through with them.

Q. Do you have a uniform formula for analyzing costs of construction projects?

A. No.

Q. In preparing your reproduction cost new estimate, Exhibits 16–A, to I, inclusive, what consideration did you give to the actual experience of the Hope Company in the construction of its property as recorded on its books?

A. The performance of men in handling pipe line construction by the company during the year 1925 was given careful consideration. The book records were available as to the performance of men, and this experience of the Hope Company during periods of heavy construction, was one of the guides to the final conclusion which we reached.

Q. Does the extent of your reliance on that information show in your working papers?

A. No. The engineers in reaching conclusions as to what is the fair and proper average cost or average performance do not specifically weight specific things. They take into account all of the facts that are at their command at the time, and they temper those facts with knowledge of the conditions under which the construction is carried out. They take into account their other
540 experiences on other projects, and reach a final conclusion, and the process of getting the final answer is not mathematical.

Q. You say that your experience has been mostly as an executive on pipe line construction. Do you mean that you have assistants who are experienced men and convey from their minds to yours these various elements that go to make up the costs?

* * *

The WITNESS. Well, as to the first part of the question, I have not worked in the ditch. My responsibility has extended from executive work where I was immediately responsible, and I spent quite a lot of time in the field on actual construction. A great deal of the work is far from executive when there is trouble. It has extended from that on some projects to, as I explained before, the complete executive charge of a large operation such as that of the Southern Natural Gas Company.

With respect to the second part of the question, I have assistants working for me, and who worked on this job, who themselves have actually been out in the field, men who have worked in the ditch in

West Virginia and know what can be gotten out of the men.

541 These results represent the combined opinion of these men, and they place before me the facts of their own respective kinds of experience, and I reached the final conclusions as to the basic performances to be used, based on their experience, extending, as I say, right down to the man in the ditch.

The TRIAL EXAMINER. Their experience was recorded, was it not?

The WITNESS. My experience, yes.

The TRIAL EXAMINER. No; their experience. That is, the experience of the man in the ditch and the man who stands on the side of the ditch is recorded as to the productivity of the men and the machines, from day to day from week to week and from month to month, is it not?

The WITNESS. Yes; but generally the cost accounting, during the construction of a pipe line, particularly that of contractors, is carried out in the manner to assist them in bidding on future jobs. No two pipe line constructors use the same method of cost accounting. The contractor changes his methods from job to job, and for that reason the records of construction of several contractors or several job foremen cannot be put down in a table and added up and divided to get the answer. It is necessary to find out what they mean.

The TRIAL EXAMINER. Do you and your assistants always use the same methods at the same time?

542 The WITNESS. My job was to bring these things so that they were talking the same language, and that the fellow that directed the job as an executive would talk the same language as the fellow that was the job foreman.

The TRIAL EXAMINER. What I am trying to find out is how you found out that you were talking the same language.

The WITNESS. Because, having known these men for many years, you learn their language.

The TRIAL EXAMINER. I judge then that they always used the same method, is that correct?

The WITNESS. They generally mean the same thing by the same words, and it is quite important in building up a composite result of their experience, to do that. Your field men, for instance, that is, the foreman out on the job, he is very prone to thing of performance as the time that he can boast about when he has been able to get a good day. The executive responsible for the job discounts that, and if he is responsible for putting in a bid, he has a tendency

to overdiscount it, the same way as the actual construction foreman has boasts in his ideas.

All of those things have to be ironed out, and they have been ironed out at the expense of a great deal of effort in this particular job.

The TRIAL EXAMINER. The effect of that is that the
543 estimate of costs which might be made on the basis of the field man's experience would be increased by the action you would take on that information; is that not true?

The WITNESS. In general that is so; yes. The field man——

The TRIAL EXAMINER (interrupting). Well, it is a fact, is it not, that your estimate of the costs of a proposed project is based on your actual experience in connection with the actual construction of similar projects?

The WITNESS. That is right.

The TRIAL EXAMINER. And that experience is recorded, is it not?

The WITNESS. It is recorded in the working papers, yes, sir.

The TRIAL EXAMINER. And in making your estimate of the cost of this proposed project, you referred, I presume, to those recorded costs, did you not?

The WITNESS. The starting point of the estimate—unit price estimates—in the working papers here, is the composite result of our experience. We do not start de novo on every valuation or every reproduction cost determination which we make, and build the costs all over again. Some of these unit costs, particularly in matters of building construction, of the type involved here,
544 have been used by us for so long, that we do not redetermine.

In connection with pipe line construction, we started with certain basic performances of men and machines, of sizes and kinds of pipe lines that control the type of equipment that you will use. Now, in arriving at those basic performances, that is the job that we have to do in advance of preparing unit costs, and it is work that is done not only in connection with this particular piece of work, but with a lot of pieces of work that we have been and are doing.

As I say, there are working papers in our own private files that could be explained in rather considerable complexity to an examining engineer.

The TRIAL EXAMINER. You start then with the same basis in making your estimate with respect to every project?

The WITNESS. All of the work that we have done recently in pipe line construction, for instance, starts from this same experience

of ours, but it was only within the past two or three years that I have attempted to bring together in concrete form this diversified experience of our firm and this work here represents that experience after pretty careful and thorough study of our experience and experience of the men.

The TRIAL EXAMINER. You may proceed.

By Mr. SPRINGER:

545 Q. Mr. Rhodes, did I understand that a composite judgment of the analysis of construction costs is the basis for your unit cost development in this case?

A. That does not, I think, quite represent what I have in mind, but it is the joint opinion of our men experienced in pipe line construction work.

Q. When you speak of your men experienced in pipe line construction, are all of those men experienced in pipe line construction in West Virginia in the area covered by the Hope system?

A. No.

Q. Then you may have in your composite judgment, a man's idea of unit costs in the Panhandle region as compared with the Appalachian area?

A. Such costs were taken into account. The method of arriving at costs was not to say "Well, here is West Virginia and it costs so much in West Virginia." A hill is a hill, whether it is in West Virginia or Alabama, or where it may be, and the contour of the ground and the roughness of the ground is measurable by the steepness of the hill, and if a pipe line is to be built up a hill of a certain steepness, it does not make any difference what state it is in. The time required to lay that line both as to machines and as to men is practically the same in West Virginia as elsewhere.
546 It is more in West Virginia, for instance, than the same hill would be in Arizona, because it rains more in West Virginia, but basically, the costs are about the same.

If you get flat country, of which there is a little, but not much, in West Virginia, it does not make any difference whether you are laying pipe line in West Virginia or where you are laying it, in our experience in arriving at the unit costs of laying pipe lines here, analyzing the experience in every conceivable kind of country, from country where pipe lines cost less than half as much as they do in West Virginia, to places where pipe lines on the average cost twice as much as they do in West Virginia. We have taken into account all of the various kinds and classes of countries.

Q. Then did you give the West Virginia appraisal its relative weight in your composite judgment?

A. We made a very extensive field survey of the construction conditions in West Virginia. The 1,300 miles trunk line, for instance, were very thoroughly surveyed. They were seen at every place where they could be gotten at with reasonable facility, and then on the remainder an extensive portion was actually walked by our construction men to find out just what construction conditions would be encountered.

With respect to the smaller lines that were not the trunk lines, an extensive sampling of roughly ten percent was selected
547 covering the whole territory, and those lines were studied and their construction conditions determined.

The result of it is that we actually know the construction conditions in detail that would be encountered on something more than 2,000 miles of pipe line built by this company.

Q. Was the Hope Company's experience over those same pipe lines that your men walked available to you?

A. The Hope Company's experience on the lines, the major lines, built in 1925 when they were extended south into Boone County, the company's labor performance in connection with that line was studied, in conjunction with the actual construction conditions encountered or to be encountered in building the line today. Not as they were then. They used oxen when the built that line, they use tractors today.

Q. You say that you had assistants available who had dug pipe line ditches in West Virginia. Will you name those men for us?

A. I stated that I had one. His name is Evans.

Q. Did he tell you what his conception of labor performance was in West Virginia for pipe line construction?

A. He sat down with us and we discussed very thoroughly the performance of labor under the various kinds of conditions
548 and the different degrees of hilliness and so forth, and he accepted the figures, as we finally used them.

Q. You spoke of using modern equipment in the performance basis of your reproduction cost new estimate. I assume the cost would be less than was actually experienced then or twenty or forty years ago by the Hope system?

A. When Hope's main lines were built, they had some construction equipment, but they were largely hand jobs. We found on careful analysis that aside from equipping the various gangs with tractors, with side booms and winches to assist in handling the pipe

and snaking it or skidding it through the woods, we found that it did not pay to use machinery in West Virginia. There are places, many places, where machines could be used advantageously, if you could get the machines there, but it costs so much to move this heavy ditching machinery from place to place, from the good places to other good places, over ravines and across streams, that the cost of moving fully offset the advantage of these machines.

So, as it stands today, the laying of a pipe line in West Virginia, assuming the same rate of wages, would be somewhat lower, because there are better roads, and more things of that nature, but there would not be any very great difference.

549 Q. Do you know that a 92-mile transmission pipe line was built partially with machine ditching in the Hope system?

A. Yes, I do.

Q. And have you reproduced that section of the property with hand ditching?

A. The particular line in question was not specifically estimated. The unit costs were developed to fit the country encountered in each size of line, and the lines over—in one line, for instance, that is not the only line of that size.

For instance, we found the average construction conditions to be encountered by all 12-inch lines, the unit cost for all 12-inch lines were built up to meet those average conditions.

The constractor on the line in question which you have, it was well known, lost money.

Q. How do you know that?

A. Because I have a letter from that contractor telling me what it cost him to build the line and how much he received for it.

Q. May we have access to that letter?

A. That was given to me in confidence.

Q. Will you tell us how much money he lost?

A. I don't recall the exact figures, but the pipe-laying contractor received a payment for the work, I think approximately

550 his cash out-of-pocket costs in laying that line, without anything to cover his general office overhead or the use of his machinery, let alone any profit.

Q. Was he an experienced pipe line constructor?

A. Yes.

Q. And you reproduced the same line with hand ditching and the other elements for more or less than he was paid for the job?

A. It would be more than he was paid for the job, yes, sir.

Q. You took into consideration the confidential letter in reaching your estimate?

A. That letter was one of the letters, one of the pieces of information which was given me in confidence, which I had in mind as the experience which helps us to determine what the true costs of laying pipe lines were in West Virginia.

Q. Do you know what proportion of pipe lines of the Hope Company were built by contractors?

A. Comparatively small portion. Just what proportion was built, I do not recall.

Q. Would it be ten or twenty per cent?

A. I have not in mind the figure at all.

The TRIAL EXAMINER. Do you know whether this contractor set out with the idea of losing that much money on the job?

The WITNESS. No, he set out with the idea of making
551 money; there is no doubt of that.

The TRIAL EXAMINER. He made a mistake in estimating costs?

The WITNESS. He did. He estimated it too low.

By Mr. SPRINGER:

Q. In your estimate, you would make a handsome profit, would you, for the construction of that same pipe line?

A. No.

Q. With hand ditching, where machine ditching was actually used?

A. The machine ditching was used at an expense that was, as nearly as can be ascertained, about the same as the hand ditching. They dug the ditch with machine very cheaply, but they spent a lot of money getting the machine from hill-top to hill-top, and that is our experience in the line at South Charleston. We used a machine on one part of that job, which should have resulted in a reduced cost of ditching, but as a matter of fact, the total cost of the ditch in the part that was dug by machine, including the machine wear and tear, was greater than the part that was done wholly by hand.

Q. Do you know whether any other pipe lines at that time were built for the Hope Company by a contractor?

A. I don't recall any other important line that was
552 built by contract.

Q. What proportion of pipe lines in your reproduction cost new estimate have you assumed would be built by contractors?

A. I have assumed that they would all be built by contractors in accordance with the practice of the industry, when large projects are built.

Q. From your familiarity with the construction of the Hope system, would you say that it was built within three years or built up gradually, over a period of forty years?

A. It was obviously built up over a period of forty years.

Q. And you have assumed a construction period of three years?

A. That is correct.

Q. Then would you characterize the development of the Hope system as piecemeal?

A. Some of it.

Q. Are you familiar with the construction of pipe line designated as H-162, that was built in 1925?

A. That pipe line was one of the lines, the performance on which was available when we arrived at our performance figures.

553 Q. Would wholesale construction costs be lower than piecemeal construction costs, for pipe lines in West Virginia and the Hope Company in particular?

A. That depends on where you draw the line between piecemeal construction and wholesale construction.

Q. What is your definition of piecemeal construction? You just said that the historical development of the Hope Company was piecemeal over a forty-year period?

* * *

554 A. If I recall correctly I stated that some of it was built by piecemeal construction.

Q. Now, I want to get your definition of "piecemeal."

The TRIAL EXAMINER. I believe he testified that piecemeal construction would be more costly than wholesale construction. Is that what you said?

The WITNESS. No; I do not think so. At times it is; yes, sir.

The TRIAL EXAMINER. Well, then, you could not make any distinction so far as costs are concerned, between piecemeal and wholesale construction?

The WITNESS. Yes, I think you can, and if may explain. Hope Company, in its forty years of development, has built the greater part of its pipe lines—I don't recall just what the percentage is. They built—the field lines for instance, most of them are small, short lines, a few miles long, built with small crews of rather skilled pipe line men that the company carries from year to year and does carry them because of their exceptional skill and because they are

exceptionally good men. Those men will build two or three or four-inch lines considerably cheaper than any contractor can
555 afford to move in and build them, largely because of the fact that they have developed a peculiar skill in that direction.

Now, when the large operations come about, requiring large gangs, two or three hundred or five hundred or ten thousand men they are talking about in this reproduction operation, then the company will go out in the labor market and be satisfied with the average laborer. The average laborer will not do as much work in a day as the man who has been selected and chosen by the Hope Company, and when you are dealing with large pipe lines of large operations, where large numbers of men are required, the cost to anybody will be greater than the cost of building these small lines, like the field lines.

Now, on the other hand, if the company sends a crew of men out, away out in the country, and lays a couple of hundred feet of two inch line, that would be an expensive piecemeal operation.

So, when you are dealing with piecemeal versus wholesale construction in the pipe line business, you can state small, very small, piecemeal construction is expensive. When it gets to an operation that when you carry it with fifteen or twenty men kept busy for a week or two, you get very efficient piecemeal construction, but as the numbers grow larger and more men are required to be
556 picked up in the labor market, then the costs proportionately become more and more extensive; so that on very large construction operations where thousands of men are required, the companies customarily call in contractors who have had a general greater experience in putting together quickly and training large groups of men to work on this work.

So that large work—take for instance your transmission line work—there is very little difference that would be shown between the company's own costs and our reproduction costs in the aggregate, translated into the same dollars, but when it comes to field lines, where the company uses its own skilled men, the company's costs translated into dollars would be rather less than reproduction costs.

By Mr. Springer:

Q. Do you mean that the company's own skilled men with this particular technique are getting less than 40 cents an hour, that you assumed for men working in gangs for men under your reproduction cost estimate?

A. No.

Q. They are high salaried men, are they not?

A. They are paid on the average higher wages than we assumed would be paid for the average laborer.

Q. And they have not undertaken a construction job on an even small portion of the Hope System once, have they?

557 A. Well, when they had built line H-162 south into Boone County there was a rather sizeable operation that required several hundred men. I have not studied the various detailed operations carried out by Hope, but most of the big lines—any line 12 inches or over, requires such a large gang that if it is a line of say 50 miles or more, generally, the companies would have to dilute its own particularly chosen men with the ordinary average laborer who is available.

Q. Assuming that the prices were the same during the historical development of the Hope Company's system as they are today, the Hope Company having been developed on piecemeal, and your assumption of reproduction costs a three-year wholesale program, would it not cost less—I mean the wholesale program?

A. In the aggregate it would cost a little less than the actual cost to the company in terms of today's dollars.

* * *

558 Q. Is it not acknowledged in the construction field that natural gas pipe line construction at wholesale construction costs are about twenty percent less than piecemeal construction?

A. No.

Q. You have never heard that before?

559 A. I have heard all kinds of statements about what it does and what it does not cost, and I think that my explanation of this morning as to the differences between wholesale and piecemeal construction might explain that.

Q. Do you recall the actual experience of the Hope Company in building H-162 in 1925, which I think is about 100 miles of 20-inch pipe line?

A. No; I do not recall any of the details.

Q. Do you know that the Hope Company built that itself without contracting the construction of it?

A. I believe they did, yes.

The TRIAL EXAMINER. Do you call that piecemeal work or wholesale work?

The WITNESS. That is big enough to be wholesale work.

By Mr. Springer:

Q. Is that not in dollar amount many times larger than the H-192 that was constructed under contract by the Hope Company?

A. It is larger, but I would not say it was many times larger.

Q. H-166 is a 20-inch pipe?

A. That is right.

Q. And the other is 12-inch pipe?

A. That is right.

Q. You spoke of H-162 being, in your opinion, wholesale
560 construction. Will you define the lower limits of wholesale construction?

A. No such definition can be given. It is a gradual transition from a tiny job which would represent piecemeal construction to larger and larger jobs, and ultimately you get a job large enough to require several hundred men on the one job, and that approaches wholesale construction, but in general, the bigger the job the harder it is to get enough men to do a good job.

Q. Is it true, Mr. Rhodes, that contractors are able to assemble large crews for assembly of pipe lines, and to do that which you term wholesale construction, more cheaply than the companies?

A. That is so; yes, sir.

Q. Well, why did you omit leaseholds from your reproduction cost new estimate?

A. Because I was asked to do so.

Q. By the counsel for the Hope Natural Gas Company?

A. Naturally.

Q. Do you think that a reproduction cost new estimate of a production system property is complete without including the reproduction cost new estimate of the leaseholds?

A. They must be reflected in some form or other in the rate base.

561 Mr. Springer. May I have the question and the answer repeated?

(The record is read.)

By Mr. Springer:

Q. Your answer would be "No," would it not?

A. It is not a reproduction cost of the whole property, that is true, but it is complete as to the property which is constructed.

Q. Mr. Rhodes, you would not reproduce the gas wells and the related equipment if you did not have the leases on which they were placed?

A. That is true, yes.

Q. On page 13 of Exhibit 16–A you state that the assumed construction period for the reproduction cost new estimate is three years. Do you have a working schedule upon which that estimate is based?

A. No.

Q. Don't you know the size of the crews and the amount of the machinery required to reproduce this property under the three-year construction program?

A. It would take about 12,000 or 14,000 men.

Q. How do you know it would take that number?

A. That has been estimated from the amount of work of the various classes required to be done. It is a rough estimate
562 that was made.

Q. That is a judgment figure?

A. No. I did not myself make the estimate, but from the amount of pipe line work to be done and the amount of building construction and the amount of compressor station equipment, it is possible to arrive at approximately the number of men that would be required to build it, without working it out in detail. The number of men would vary from time to time. It would probably take six months before you were going full blast on a construction program of that kind. It might reach the peak in a year and a half, and then gradually in the last six months, it would fall off to relatively few men.

Q. Don't you have a construction program assumed for the purposes of this estimate?

A. Well, for the purposes of the estimate we assumed the property could be constructed in three years, and that is a fair length of time to be consumed in constructing a property of this size and complexity.

Q. Do you know whether you have 100 men the first day or 1,000 men the first six months, or don't you know when your payrolls are going to enter into the unit cost of development in the case?

A. As I stated before, some 12,000 or 14,000 men would be required during the peak of construction.

563 Q. Do you know the amount of machinery that is going to be required from month to month?

A. The working papers would disclose in some form the approximate number of gangs involved in pipe line equipment, from which the amount of machinery could be figured, but having developed a

unit cost per foot on the different sizes of pipe, it is just a mere incident as to how many men you are going to use in the aggregate, except to know whether it is a few men or many men.

Q. Is it not possible that if you are wrong on your assumption of the number of men, that it may take six years to reproduce this system?

A. We are not wrong on the number of men required to do the work.

Q. But you don't know the exact number from month to month that would be required?

A. If you find your progress is slow on your schedule, you just get more gangs of men at work. In an actual construction program, involving rates of construction approximating this, you do lay out a program of construction, to know when you are going to require your men and when you are going to require your materials, but it may vary from time to time as to the number of men and the gangs, as you find you are slipping behind or
564 getting ahead of your construction program.

Q. But your working papers do show the period of time required to construct each major portion of the Hope system, do they not?

A. No.

Q. How do you figure your interest during construction?

A. The interest during construction as used in this reproduction cost new exhibit was the interest during construction agreed to in the former Cleveland case and used on the Ohio Commission, and I have reconsidered it as to whether or not it fairly represented conditions today, and I think that it is reasonable and proper interest during construction, that is not figured specifically as to progress or anything of the kind. In a three-year construction period of a complex property it would indicate to me that 8 percent is a fair interest during construction.

Q. Have you assumed, Mr. Rhodes, on a three-year period of reproducing the property that not one unit of it would be in commercial operation before the end of that three-year period.

A. No.

Q. What is your construction and operation program for the estimate of the reproduction cost?

A. Some parts of the property could be completed and
565 placed in operation within a year or fifteen months after the beginning of active construction. It would be possible to put some of it in operation. Other parts of the property, for

reasons of economy, it would be necessary to be built well ahead of the time it would actually be placed in operation, to avoid back-tracking and going back to work in a given neighborhood.

If I had adopted the sometimes-used formula of interest during construction that I understand is used by the Interstate Commerce Commission, I would have arrived at a much higher figure than 8 percent. That formula calls for interest for half of the construction period plus three months. In other words there would be twenty-one months use of the money, if I had followed the Interstate Commerce Commission formula for interest during construction period. If you take 8 percent as the cost of money, that would mean a 14 percent interest during construction. I have used 8 percent.

Q. And you employed the principle that when a unit of property is available for use, interest and taxes on that cease?

A. Not when it is available for use, but when conditions will permit it to be used. A piece of property may be completed months before it would be possible to connect it into the system and actually use it in operation.

566 Q. Have you employed the principle in your reproduction cost estimate of which I spoke?

A. Not by specific application.

Q. You say that you took the figure that was agreed to in 1931 in the Cleveland rate case, is that what you said?

A. That was the start, yes.

Q. But you were also aware that the figure was not agreed to in the 1937 Cleveland rate case.

A. That is correct.

Q. Do you have any outline of your construction program that would reveal the number of men, the amount of machinery required, the dates of cutting into operation of the various units of the property which you described?

A. No.

Q. On page 14 of Exhibit 16-A you state that you used labor rates and material prices prevailing during the winter of 1938-1939?

A. That is right.

Q. I suppose your reproduction cost new estimate is based on spot prices?

A. No, it is not.

Q. Have you used material prices and labor rates that have been averaged over the last five years or the last three years?

567 A. The prices I used are prices that have remained substantially the same from the Fall of 1938 up to the present time. There is a tendency upward in prices at the present time.

Q. How do you know that, Mr. Rhodes? What is the basis for your statement. Do you have indexes?

A. Various indices are available. I note, for instance, that there has been no change in the price pipe, casing and tubing, which are the dominant materials, the principal materials entering into the construction. I know that there are no appreciable changes in the cost of compressor station machinery.

Q. Have you available in your working papers the prices for pipe annually from 1925 to date, and would you read those into the record?

A. No, the working papers are all based on unit prices for certain sizes of pipe, and I know from the prices that are being paid by purchasers of pipe that throughout 1938 and 1939 they have been substantially unchanged.

Q. Could you name the sales of pipe to which you refer?

A. I investigated the prices for approximately $3,000,000 worth of pipe, casing and tubing that was purchased in the latter half of 1938 and the first half of 1939, and in some cases the latter
568 half of 1939, and found that the prices that were actually paid for the pipe at the factory were somewhat higher than the unit prices at which I priced the inventory in the price inventory of this report.

Q. How many million dollars worth of pipe would be required to reproduce the Hope system?

A. About ten or twelve million of pipe, and casing and tubing approximately the same amount. Those are rough figures.

Q. And to price twenty million dollars worth of pipe to reproduce the Hope system, you referred to prices during the winter of 1938 and 1939?

A. And the latter part of 1939.

Q. But you did not make an average price, you say, over the last five or six years?

A. That was made in the working papers of some other estimates of reproduction cost new, and I do not recall at the moment when all of the prices of pipe changed, but there was a peak of prices in 1937 and the first part of 1938. Before that the prices, for a year or two, were approximately the same as they now are, and of course earlier than that, in the periods of extreme industrial depression, the prices of pipe were even lower.

Q. Can you give us the pipe prices?

A. I could look up the prices for pipe in these various
569 reproduction cost new estimates I have made. I do not have them at hand.

Q. Are those the prices actually paid for pipe, or your estimates?

A. The prices to which I refer were the prices quoted to me by the manufacturers of pipe, which prices are the prices that I found were actually paid by the purchasers of three million dollars worth of pipe in 1938 and 1939. The task of making comparisons is so great that I did not attempt to cover all of the purchases that I might have studied, had time been available, but they reflected far more than three million dollars worth of pipe.

Q. That was not one purchase, these three million dollars?

A. Oh, no; it was purchased by one group of pipe-using companies.

Q. We would still like to know, Mr. Rhodes, what the source of your price of pipe information is?

A. Well, the first source of pipe information was the pipe mills who were requested to give us the prices of large numbers of sizes and kinds of pipe, casing and tubing entering into this property. They were asked to give us their lowest prices, having in mind the quantities involved.

We started with those prices. We made an investigation, and I think personally I had an investigation made to find
570 out whether those prices were actually being paid for pipe, and I found that the group of properties, of which this is one, bought—I think it was three or four hundred thousand tons of pipe or casing in 1938 and 1939.

I had a considerable portion of this pipe examined as to price and found that this three million dollars worth of pipe and casing and tubing as a sample of the three hundred thousand tons, which was twenty million dollars, more or less—I found that on the average the price paid was greater than the prices that I had used for pricing the various sizes of pipe in the inventories.

Q. Did the prices you assumed take into consideration the discounts available on carload lots?

A. The prices that I have used in pricing the inventories took into account all discounts that the manufacturers acknowledged. They were based on purchases of carload lots into, I might say, trainload lots of pipe. I did find that in certain cases still further discounts were obtainable, under certain conditions, and that was reflected in this reproduction cost new by a lump sum reduction in

the total cost of the pipe lines beyond the unit prices that had been quoted to me by the manufacturers.

Q. How much was that lump sum deduction?

A. Roughly a million and a half dollars.

Q. And in percentage?

571 A. Ten per cent of the mill price.

Q. That was for pipe lines only and not for pipe tubing and casings?

A. There are no discounts available for casing and tubing other than those which are quoted to us by the manufacturers.

Q. And do you have the prices used for tubing and casing before you?

A. Not on my desk. They are available in the working papers. The unit price, including freight, and so forth, are of course available in the price inventory, but the mill prices are not in convenient form.

Q. Do you remember the basing discounts and all the other discounts for tubing and casing?

A. The only discount for tubing and casing that was quoted to us was the 2 per cent for cash. The prices given in general covered all of the equipment of a well, which is the way the casing and tubing is customarily sold.

Q. Are you aware of the fact that the jobbers get a ten and a five per cent discount in addition to that?

A. I don't know what the jobbers get, but I do know what the producers have to pay for the pipe.

Q. Don't the purchasers get a basing discount?

A. The purchasers buy all of their casing and tubing

572 at the manufacturers' quoted prices less two per cent for case. There are very few, if any, exceptions to that, that I have been able to find.

Q. You don't know of any large quantity of purchased pipe, where there is no more than a 2 per cent cash discount?

A. Casing and tubing is not purchased in large quantities, as a general thing. The manufacturers of oil-well tubular goods maintain warehouses about the country and they maintain agents and the prices paid by the purchaser are the same whether they are bought directly from the mill or through the agents.

Q. Is there any difference in the manufacture of casing and tubing and line pipe?

A. Yes, the casing and tubing is manufactured with much more regard to rigorous specifications as regards flaws, quality of workmanship, and so forth.

Q. You have assumed in this three-year construction program for your estimate of reproduction cost new, that you would have purchased all of the tubing and casing required within the three year period?

A. Yes.

Q. But you have not taken advantage of any large lot purchase discounts?

A. There are none to be had.

573 Q. When you sought quotations from the manufacturers on the prices of pipe and tubing and casing, the manufacturers knew that it was for appraisal and rate case purposes, did they not?

A. I think so; yes.

Q. Do you know of any actual negotiations for the purchase of pipe, tubing and casing, that are comparable to the requirements of reproduce the Hope system?

A. Not in recent years.

Q. Do you know of any?

A. I have heard of none.

Q. Does the Hope Company have the advantage of the purchasing services of the Standard Oil Company of New Jersey?

A. If they asked for it.

Q. They have used that service, have they not?

A. I have not investigated to what extent they have used it, but I understand that they did, from time to time.

Q. Do you know what discounts the Hope Company has received on the purchase of large quantities of pipe?

A. I don't know what prices they paid for pipe, except in 1938 or 1939, and find that the prices they have been paying, as in common with all the other properties owned by Standard or affiliated with Standard, are the prices that we used for pricing the priced inventory before the one and a half million

574 dollar discount for large purchases.

Q. Do you know the price paid for pipe used in the H-192?

A. No, I do not.

Q. On page 14 of your Exhibit 16-A, you state: "Since that time"—that is 1938-1939—"the level of these rates and prices has remained substantially the same."

By what means are you able to determine that?

A. Well, as to pipe, casing and tubing, which are the principal materials, I find that the fact is actually so as reflected by the

purchases of this group of companies. I also know from the price indices which we have—we keep up certain price indices in our office—we have available purchase price indices prepared by other people, and they show that, for construction such as that involved in the natural gas properties, the overall price level has been substantially the same throughout the period from the middle of 1938 up to the end of 1939.

Q. Would it not be a coincidence if the estimates which you give for the Hope system today was the same answer you give in your Exhibit 16–A which is as of December 31, 1938?

A. Today there is a tendency upwards of prices. What is going to happen depends entirely upon what happens in Europe.

575 Q. Would it not be a coincidence if the cost of reproduction new estimate in any new natural gas property were the same on dates varying by six months?

A. No. This reproduction cost new estimate covers a period of substantially eighteen months during which there is no substantial change in the prices.

Q. You say "substantial change." I say it would be a coincidence if the answer were the same if you made a reproduction cost estimate six months apart on the same system?

A. If it were the same to a dollar, it would be a miracle.

Q. On page 14, you state that the company would purchase all materials except the building materials. What company do you refer to?

A. The company capitalized in this exhibit refers to the Hope Natural Gas Company.

Q. Have you considered the discounts available on quantity purchases made by the Standard Oil Company of New Jersey?

A. Yes; the ten percent on pipe, for instance, was based on information obtained from the Purchasing Department.

Q. Did you secure bids from responsible contractors on a competitive basis, indicating what it would cost to install the major units of the property?

576 A. No.

Q. Who wrote the letters to the manufacturers requesting the sales prices on the materials and equipment?

A. Letters were form letters, substantially alike, and of the same tenor, and I participated in their preparation.

Q. Was the letterhead that of Ford, Bacon & Davis, the Hope Natural Gas Company or the Standard Oil Company of New Jersey?

A. The Hope Natural Gas Company, as I recall. It is so long since that my recollection may need refreshing, but I think it was the Hope Natural Gas Company.

Q. Were payments made for the quotations which were furnished?

A. In some instances we were asked to compensate for the trouble which the manufacturer went to in furnishing these prices.

Q. And as you have said, the manufacturer knew it was a quotation without the probability of making a sale?

A. That is true, but they were asked to furnish us the lowest price at which they were currently selling things.

Q. Were they practically subject to negotiation, as you and I know it?

A. Well, I found purchases of some hundreds of thousands of tons of pipe, casing and tubing that were purchased by this group of companies in 1938 and 1939 that were purchased

577 at the prices that the manufacturers quoted us.

Q. Could you give us the names of those companies?

A. The full tonnage of pipe refers to the natural gas and oil pipeline companies, in which the Standard Oil of New Jersey has an important interest, so that the materials are from time to time purchased through their own purchasing department. That group of properties includes the Appalachian group here, the Hope Natural Gas Company, East Ohio Gas Company, People's Natural Gas Company, the New York State Natural Gas Company, and the Reserve Company before it was dissolved or merged into the Hope Company. It also includes the Standard Oil Company of Louisiana, which operates a very extensive pipe line system in Louisiana, the Oklahoma Pipe Line Company in Oklahoma, the Ajax Pipe Line Company from Oklahoma to St. Louis, the Humble Pipe Line Company, which operates in Texas, the Humble Oil and Refining Company, the Tuscarora Pipe Line Company, which is a gasoline pipe line running east to the Atlantic Seaboard. Those are the principal properties.

Q. Do the prices which you used in this valuation reflect prices that would be available from the quantity purchases required for the distribution plant of the Hope Natural Gas Company, East Ohio, and the People's distribution system included?

A. Do I understand correctly that you are referring to this entire Appalachian group of properties in its entirety?

578 Q. That is correct.

A. I am afraid that if that number of properties were to be built within a period of a few years, the price of pipe would advance materially instead of there being discounts.

Q. Why?

A. Because there would be so much business to go around that the manufacturers would advance their prices.

Q. Do you mean that they would violate the law?

A. No; they would ask for more money for their product if they could get a fair share of the business. How they may go about it, I do not know, but I feel sure that there would be an increase in the price of pipe, casing and tubing, if purchases would be thrown on the market equal to the entire requirements of this group of companies.

Q. You assumed that the Hope Company would be reproduced in three years. Do your pipe prices reflect your conception of a hypothetical increase under such an assumption?

A. They assumed the continuation of the conditions that have existed since about the middle of 1938 up to the end of 1939.

Q. On page 14 of Exhibit 16–A you state that where equipment was no longer being manufactured as specified, the cost of superseding equipment at lowest quoted prices of competent manufacturers were used as a basis of pricing. Will you
579 please list the location of equipment where you used prices
of that character?

A. In the gas engine driven compressor portion of the Hastings station, there are four large compressor engines of the type and character that are no longer available except to be made to order. The patters are not available, and prices quoted on equipment of that kind that has not been made for years are not representative of the present-day prices of equipment. As related to those particular engines, we priced them on a per-horsepower basis, equal to the price per horsepower of the largest gas-engine-driven compressor unit, single tandem, as these engines are, which is now currently being offered in the market.

Q. Would you complete your list of equipment where substitute equipment is priced?

A. I would not call it substitute equipment; I am merely pricing a price per horsepower that would be paid if one wanted to put in the largest commercially available unit today. In the other cases, the Company has a considerable number, fifteen or twenty smaller engines of the same general types of such engines. They are of a type that have not been made—they

are called Snow engines—and they have not been made by the successor of the Snow Company, namely the Worthington, for a number of years. They are very similar, however, to en-
580 gines that are being offered today both by Worthington and by Cooper-Bessemer, the two principal manufacturers of large gas engines. We found the Cooper-Bessemer prices for that size engine were lower than the Worthington prices, so I took the Cooper-Bessemer prices which were in line with the prices at which Cooper-Bessemer is actually selling such equipment.

Q. Is that a full listing of equipment which is no longer manufactured, and which you secured their prices for?

A. That is two important items. The Company also owns a considerable number of center crank single tandem engines made by the National Transit Company. They were priced as though they were the standard single standard engines, with the side crank. Those particular items cover the greater part of the equipment that is not now manufactured.

Another type which is not so plentiful is long-stroke 48-inch stroke Westinghouse engine—the Westinghouse Company is no longer in the business of building gas engines, so we priced those engines at the cost per horsepower of the engines that had the nearest comparable dimensions ast o bore and stroke which primarily control horsepower.

Q. Are the engines at the Hastings plant still manufactured by Westinghouse?

A. They are no longer like those.

Q. On equipment which is no longer being manufac-
581 tured, and is at the present time obsolete, did your price quotations represent the cost of a comparable unit on the basis of performance abilities or on substitute equipment?

A. There is no equipment of any importance on this property that is obsolete to the extent that it will be retired by obsolescence. So actually, I should say that the answer to your question is "No," there being no obsolete equipment.

Q. Did you price equipment with comparable performance ability?

A. I priced the equipment, as I stated before, with the lowest prices quoted by the manufacturers of equipment as nearly like this in question as we were able to get the prices on.

Q. Did you make the test of performance? Are not the new machines more efficient than the old machines?

A. As to gas engines, not particularly.

Q. How about turbines?

A. Under the operating conditions of these turbines, which is a relatively low pressure turbine, and relatively low vacuum, I should say that with the water in that country and the other efficiency factors, the efficiency of the turbines today is not appreciably different from that which obtained at the time those turbines were built.

Q. On page 12 and 21, you state that wrought-iron pipe was priced as steel pipe. Will you tell us the quantity and the
582 location of pipe which you know to be wrought-iron and which has been priced as steel pipe?

A. All pipe bought before 1900 must necessarily be wrought-iron pipe, because steel pipe was not available on the market. The pipe bought between 1900 and 1908 or 1909, some was of one kind and some was another. Having no intention of replacing wrought-iron pipe as such, I made no investigation as to exactly how much of it there was.

Q. You do not know the quantity nor the location of the wrought iron pipe in the Hope System?

A. I made no investigation.

Q. On page 15 of Exhibit 16–A you also discuss the freight rates. Would the freight rates that you used be weighted average freight rates, giving effect to quantity and tonnage for the materials, based on their actual destination?

A. Carload freight rates were used throughout. I believe that answers one of your questions, because that is the lowest freight rates which are available. Second, knowing that we might use the same prices for the same identical machines and materials as to different locations, we used freight rates from the mill to the weighted average destination of the particular type of equipment involved.

Q. Where did you assume the property would be shipped?

A. Lorrain or McKeesport or other parts of the Pitts-
583 burgh district—Youngstown. Nothing specific.

Q. You had no schedule of purchases and routing?

A. That is correct.

Q. Did you have a central destination point or did you have geographical area destination points for the Hope System?

A. We used the freight rates weighted to—what you might call the weighted average destination for pipe, and that freight rate is substantially the same for many of the pipe mills in the Pittsburgh district.

Q. Will you tell us how you computed the weighted average?

A. The exact form in which the calculations were made, I do not recall, but the natural way would be to find approximately the amount of pipe that went to each point of receipt, and weighting the freight rates to those points pro rate to the tonnage that went to those points.

Q. Do your working papers reveal the detail of that?

A. They will reveal it in some form, yes.

* * *

584 Q. On page 16 of your Exhibit 16–A, you state that in the price inventory there are no allowances for contingencies and omissions other than those included in the unit costs. What contingencies and omissions have you included in the unit costs which you applied to materials and machinery equipment, the inventories for which were taken from the investment
585 ledgers?

A. The inventories from all sources or from any source, you might want to consider, are generally incomplete. We priced the pipe lines, for instance, on the number of feet that we found were contained in the finished pipe lines. We merely used the investment ledgers or the records of the length of pipe in the investment ledgers, as a guide in reaching our final inventory. Pipe is used for odds and ends, pipe is damaged, lost or cracked off, when you figure on the basis of the completed line. Our inventory of valves and fittings, for instance, was made by a practical field-survey of the valves and the fittings in use. We did not take the tremendously long list of valves contained in the investment ledgers, for instance; we took the list of valves we could find and could find were being used. It would not be complete in any reasonable time.

The same was true of dresser couplings. We took those on the basis of 20 foot spacing. Obviously, to anyone skilled in the business, 20 feet is rather a liberal spacing, although a customary spacing for dresser couplings.

The incompleteness of the inventory as to these details is taken care of in a miscellaneous materials cost allowance.

On the cost of laying pipe lines, it would be seen by an examination of our working papers, we started out with
586 unhampered performances under perfect conditions, everything running perfectly, no trouble from the rain, no labor trouble. We assumed that the men could start off bang at full

efficiency in running a gang of a few hundred men, which we know cannot be done.

We made an allowance in the unit cost for laying pipe lines, covering what we deemed to be the effects of the weather and the moving around from place to place of various gangs, and the lost motion of that nature.

These unit costs are the only places in reproduction cost new where there is any allowance for things of that kind.

Q. Can you tell us in dollar amount what the contingencies and omissions would equal?

A. I have not figured it out.

Q. Do you know what percentage was inserted for the contingencies and the omissions?

A. The percentage was different in the case of different unit costs, and we would have to refer to the working papers to determine that. I may have some excerpts from the working papers in that connection.

Q. Will the development of your unit costs show those details?

A. Yes; the development of the unit costs will show with respect to laying pipe lines specifically what percentage
587 allowances were made for contingencies. The development of the unit costs will also show the amount of these material costs, not only for contingencies in the nature of material contingencies, but for the cost of purchasing, and things of that nature.

The general unit costs for things of the nature of building construction will show the contingencies. The performances that we have used are performances that might reasonably be expected. They are not affected quite as much, for instance, by weather, as the cost of laying pipe lines.

Q. Is your treatment of omissions and contingencies in the unit costs in your estimate related to the actual experience of the Hope Company?

A. It could not be related to the Hope's experience. The amount to be allowed for omissions and contingencies is necessarily affected by the amount you include in your basic figures. If you are able to develop, or have the time to go to the expense of developing your basic figures completely enough, the omission and contingencies can be made very small. If your basic figures are relatively rough, the allowance for omissions and contingencies must be larger. The allowances that we have made, in our

opinion and judgment, properly reflect what is in the principal direct costs, and what additional amounts should be allowed to adequately reflect the whole cost of the project.

588 Q. In your Exhibit 16–A, page 16, you state that the development of unit costs is available in convenient form. Is that a volume or a series of volumes of working papers?

A. At the present time it is a stack of papers as high as that table [indicating] in which there are literally hundreds of developments.

Q. Do you have a copy of those?

A. There is only the one copy of the whole. Some of it has been copied.

* * *

594 Q. Mr. Rhodes, is this reproduction cost new estimate set up in accordance with the 1939 West Virginia Uniform System of Accounts for Gas Utilities, which is Exhibit 13 in this case?

A. The classification of the inventory contained in here is that which was given to me or my men by the company's accounting department as having been so set up. I find from going through these myself that there are some details which might be in a
595 different account from what they are, but it is substantially correct as I see it.

Q. Are there any differences between your classification of pipe lines and compressor stations, and that of Mr. Tonkins, as shown on Exhibit 1?

A. I have not made a comparison of the two groups. As I stated before, the groupings of the inventory were made by the accounting department of the company, and the breakdown, as between the production system pipe lines and the transmission system main lines is that of the company.

* * *

Q. Have you, in preparing your reproduction cost new estimates followed the instructions as to the costs properly includable in the plant accounts prescribed in the West Virginia Public Service Commission Uniform System of Accounts for Gas Utilities, 1939?

A. In determining this reproduction cost new, I deter-
596 mined what it would cost to build the property. The detailed classification as to this, that, and the other thing, I paid no attention to. While I am generally familiar with what is properly includable in the Code of Accounts, I have

everything in here that is properly includable, and nothing but what the company would be called upon to spend money in the case of a reproduction of the property.

Q. Can you segregate for each of the structures, improvement and equipment accounts, as shown in your reproduction cost new estimate, the amounts included and described as components of construction cost on pages 51 and 52 of the West Virginia Public Service Uniform System of Accounts for 1939?

A. That could be done at the expenditure of a good deal of time and effort. The determination of the unit cost was not made for the purpose of facilitating such a breakdown, but rather for the purpose of facilitating the determination of reproduction cost new. We have made no breakdown which would permit the breaking down of those costs into eighteen different classifications of things that comprise the construction costs.

Q. Then you are unable to give us the total number of dollars in your reproduction cost new estimate which is described
597 in the West Virginia system of accounts as contract work?

A. I could, but not without going to considerable trouble and expense.

Q. And that is true of all of the other classifications of the components of construction costs in that system of accounts?

A. That is true.

* * *

Q. Mr. Rhodes, on page 11 of Exhibit 16–A, you stated that the items of property covered by this reproduction cost estimate are classified by the company in accordance with the new Uniform System of Accounts for Gas Utilities, prescribed by the Public Service Commission of West Virginia effective January 1, 1939. Do you know who, in the employ of the Hope Natural Gas Company made that classification?

A. Well, the classification on questions that appeared to our men as requiring an answer were in general referred to Mr. Cross, one of Mr. Chisler's principal assistants.

Q. Is Mr. Cross an accountant or an engineer?

598 A. He is an accountant.

Q. Does not his classification differ from Mr. Tokin's for pipe lines?

A. Mr. Tonkin's classification, as I followed it, is the practical classification of the operating man. The classification in the Code of Accounts is intended to be an accounting classification.

and I think there are many lines where it would not be clear as to in which category they belonged.

Q. Mr. Rhodes, on page 17 of Exhibit 16–A you state that in pricing the inventory of the buildings and structures you used appropriate costs per cubic foot. Did you price the quantities and materials entering into the individual structures being priced?

A. In the case of the larger buildings, considerable portion of which are compressor station structures, while the priced inventory shows the costs as a cost per cubic foot, a reference to the working papers of the unit cost development will show that the total cost of each particular building was determined by pricing all of the classes of work entering into it and then the cost per cubic foot determined and transferred to the price inventory, to avoid the complication detailed in pricing.

Now, as to the buildings of moderate size, for instance, they were divided into groups by types of construction, and
599 typical buildings of each group were priced in complete detail, as is shown in the working papers, and buildings of other dimensions than those specified buildings were priced at prices per cubic foot that fairly reflects the difference in the cost as between the different sizes of buildings.

The very small buildings, like meter houses or meter boxes, those were divided into appropriate groups of buildings of substantially the same size and dimensions, and they were priced on the basis of an average unit. There are several hundred buildings in some cases that are substantially alike.

Q. Could you tell us what proportion of the building and structures were actually inventoried, in order to price them on the group basis you have described?

A. I do not have available the proportion, but a considerable portion of the total dollar value was priced in detail, I know that.

Q. But that which was not actually inventoried has been priced on an approximate group basis?

A. Well, all buildings, except the little box-like structures, are priced at a price per cubic foot that reflects the particular size and type of building involved. Each particular type of building would involve pricing in complete detail of all of the work entering into the construction of several buildings of that group.

600 Q. Do the books and records of the Hope Company reveal the quantity of materials bought by the company which entered into the construction of these buildings?

A. Only to a limited extent.

Q. How did you determine the kind or the amount of material in each structure?

A. Each structure had previously been inventoried as of 1931 in complete detail. The inventories were agreed upon by the representatives of the City of Cleveland and of the Company and of the Ohio Commission as being fair inventories of all of the buildings that were then owned by the Company. Some of those buildings had disappeared and others had been changed; all of which facts were ascertained in the field.

Now, as to a great many of these buildings, a recheck of all of the details was made, to truthfully determine for me as to whether I could reasonably accept the agreement, with which I had previously nothing to do as an individual, and I found that these old agreed-upon inventories in the aggregate, detailed as they were, were satisfactory for the purpose of pricing these buildings. Many of the buildings, in fact, practically all of the buildings that we priced in detail were rechecked in complete detail. The other buildings we did not question in detail. We had the description and the dimensions which were accepted and
601 found to be correct, but no complete detailed remeasurement was made of buildings found to be unchanged, other than a few, so really it is a considerable number which were taken in absolutely and which we rechecked in complete detail.

Q. Then you used the group basis of pricing?

A. That is right.

Q. Referring to page 18 of Exhibit 16–A, on gas well construction, did you make a study of the Hope Company's experience as to the cost of drilling wells?

A. We made a study of their experience over a period of years, and tried to coordinate the speed of drilling with the character of rock through which they were drilling, and found that there were so many indefinitenesses about the company's records that we could not use them dependably.

In general, the time spent to drill wells as shown by the company's records, where they had complete records, was greater than the time that we felt should be required to drill these wells. For this reason we made a complete study of other people's experiences in drilling of wells, and have based our pricing on what you might say is the typical average experience in West Virginia.

Q. Could you name the other properties which you studied to get that typical average price?

A. I would have to look up the records, but I can say
602 this, that every contractor of any size, doing work for the company or for any other gas companies, was interviewed as to the length of time required to drill wells in this territory and as to the equipment that he used, and as to his methods, that information was also compared with records of similar performance of wells drilled by the other gas companies that were operating in immediately contiguous territory, and based on that investigation, we determined just what would be required in the nature of equipment, and we found an average number of days that would be required to drill the wells of the company, based on the experience of all of these contractors, and we found their experiences with respect to depreciation and wear and tear and the wearing out of well-drilling equipment, such for instance as the cables and lines and tools used, and put together all of these factors which are primarily non-company experience, arriving at a figure which would be considerably less than would have been arrived at had we based our cost on the company's own drilling experience over a number of years.

Q. When we reach the discussion of specific costs, you will be able to reveal the exact components in the making up of those costs and give them to us?

A. The working papers show the costs in great detail; yes.

603 Q. You say that the unit costs used in arriving at the costs, are contract costs? Did you secure competitive bids from responsible contractors?

A. No.

Q. How did you determine the contract cost?

A. We did not attempt to fool the contractors into making bids for wells. That would not have been a proper procedure. We contended ourselves with finding out what the contractor's experiences were. We put together their most favorable experiences rather than their bad experiences as reflected by some of the company's records, by figuring it as a contract cost; the meaning of that is related to the fact that we have in there an allowance for contractor's fee and contractor's overhead.

Q. Do you remember the percentage that you allowed for contractor's profit?

A. There was an allowance of ten percent, out of which the contractor would have to pay his taxes, gross earnings tax in West Virginia, pay for his general overheads, and insurance against abnormal risks, which occur from time to time, in something that

goes wrong in the drilling of wells, in fishing expeditions, and the time required to get tools out when they drop to the bottom of the well. How much would be left for profit, I do not
604 know, but the contractor would do well if he had 5 percent.

Q. Did you consult any of the other companies in the Appalachian area on their drilling costs?

A. We consulted others in this district where the costs are rather lower than in some of the other Appalachian districts. We did not directly reflect some of the low costs of drilling wells, because we find that some of the contractors, instead of paying the current going wages, were getting men to work twelve hours a day with not a proportionate increase in the pay. Of course, low cost prices can be achieved by such a method. We could not assume any such method in this reproduction cost, because it was being done contrary to the law as to the Wages and Hours Act, and we therefore ignored a few of the low-priced drilling costs that some contractors were offering.

Q. Did you inquire into the well-construction costs of the United Fuel Gas Company?

A. Without reference to the details, I would not care to say.

Q. Your papers would reveal that?

A. The papers would reveal those whom we saw and what we found out.

Q. Do you know what portion of Hope Company's wells were purchased?

605 A. Not offhand; no, sir. I believe it is in the record already.

Q. Is it a small portion?

A. I don't recall. I think it is a minor fraction, but just what it is I do not know.

Q. How did you determine the weight of casing and tubing in the wells which were purchased by the Hope Company?

A. There was no record available in most cases as to the weight of casing and tubing. The size is available, and when we did not know the weight, we had to price the particular casing and tubing at the average weight of the casing and tubing that had been purchased by the company. There are some cases where the wells that had the casing and tubing pulled where that information was available, but in general, where we did not know the weight, we took it at the average weight of the company's purchases.

Q. How did you determine the weight of the casing and tubing in the wells which contained the second-hand or used casing and tubing?

A. Most of the wells containing used casing or tubing was casing or tubing which was put in from the company's own stocks and was accordingly purchased company's casing and tubing. Where there was no record of what was in a particular well, we had to rely on the general proportions of the
606 company's purchases of the different weights, and which we analyzed in considerable detail.

Q. Your reproduced wells which contained originally used casing and tubing had an average price for new pipe purchased for the Hope Company, is that right?

A. We made no differentiation as to where the tubing and casing came from.

Q. Is it true that wells in the different regions of West Virginia, although having the same depths, will have different costs?

A. They may have; yes.

Q. Is it generally true that the average costs per foot of deep wells is more than that of shallow wells?

A. In the broad way, yes; but as compared with wells within reasonable limits in any territory, the price per foot is generally the same. Compared with 1,500-foot wells, 3,000-foot wells should cost more per foot.

Q. In your opinion, the average cost per foot of drilling a 5,000-foot well would be greater than the cost of drilling a 1,000-foot well?

A. In general; yes.

Q. And is it not a fact that the Hope Company has wells varying in depth from less than 1,000 feet to approximately 5,000 feet?

607 A. Yes; a few.

Q. And do you know whether the wells of the Hope Company now in use were drilled, a large number, at one time, or drilled over a number of years?

A. They were drilled over a number of years.

Q. In your experience, do you know of a case where a construction program was undertaken involving the drilling of 3,000 gas wells within three years?

A. No; but I know of cases where drilling of more oil wells was carried out in that period of time.

Q. By one company?

A. No; by several companies.

Q. Page 18 in your construction cost of gas wells at $2.43 per foot, do you include the cost arising from the use of drilling equipment?

A. I do not see the reference to the price. I do not think it is mentioned there.

Q. As a matter of principle did you, in your construction cost of gas wells add x dollars per foot as the cost arising from the use of drilling equipment?

A. Yes.

Q. And the details of that computation would be available in the working papers?

A. That is correct.

608 Q. On page 5 of Exhibit 16–C and also referring to page 18 of Exhibit 16–A, you state that a field inventory was made of the closing-in valves and fittings of about ten percent of the wells in each district, and that office records were checked on ten percent of the wells in each district of packers and other details. Then your selection of the ten percent was based on a geographical selection of wells instead of ten percent of the wells classified by the number of producing strings?

A. I don't recall the exact number of wells of each type, but this ten percent sampling was designed to arrive at the typical bill of materials entering into this miscellaneous equipment for wells of the several numbers of producing strings. Whether the exact ten percent applied to all, I don't know. Obviously it did not in the case of the two wells with five producing strings.

Q. And then on page 5 of Exhibit 16–C the inventory of closing-in-equipment which you priced, was not an actual field inventory, but the inventory resulting from the sampling of ten percent of the wells which were checked in the field, is that right?

A. The unit price came from sampling the number of wells of each particular number of producing strings, however, was determined by reference to the actual records of the

609 detailed equipment going into the wells.

Q. Of ten percent?

A. No. All of the wells of the number of each particular class was studied from the records. The unit cost, however, was based on the detailed pricing on an inventory of the detail material such as nipples, T's, check-valves, and so forth, which was based on the ten percent sampling.

Q. The source of the data you used as the inventory of miscellaneous equipment on page 5 of Exhibit 16–C was that office records or field records?

A. It was based on the office records in the operating department. There is no way of seeing what is down in the wells; it is necessary to refer to the records of the department, either the accounting department or preferably the producing department where they have records of almost everything that is in the wells.

Q. Did those records show inventory and miscellaneous equipment of the other gas wells?

A. To the extent that it was known. Naturally, wells that have been purchased, have not been disturbed, and the knowledge was incomplete as to what was beneath the ground.

Q. Referring to page 18 of Exhibit 16–A you indicate that the inventory for quantity of casing and tubing of the wells was prepared by correlating the investment and other
610 records. Did you adopt the investment records of the company for quantities in this case?

A. Correlating of the two records was made and in the case of most of the wells the agreement was substantially perfect. In some of the wells we found a disagreement as between the two records, in which case every possible source of information was checked to determine which was correct. There are some wells, for instance, where we found more tubing in the wells than could physically exist there. That was corrected for, and the correlation of these two sources indicated those particular wells where we needed to make further investigation, and the best source of information as related to each individual well was finally adopted and the records were corrected.

Q. What were the two sources?

A. The two basic sources are the accounting department records of what was charged out to the well, and the records of the producing department, as to what was in the well. They might be compared also to the records at the time of drilling the well which shows the amount of casing and tubing sent out to the well and the amount left in the well. All sources of that kind were examined, and as I said, wherever there was a discrepancy in the sources, the best possible investigation was made to correct it.

611 Q. And then you adopted the book records; both sources being book records?

A. Well, of course, the only possible record is something on a piece of paper, because obviously you could not pull casing or tubing from a well and measure it. It was necessary to adopt

book records, but as I have pointed out, there were different sources different departments, from which records may be obtained for the purpose of reconciling differences.

Q. How did you determine which one to take?

A. The records of each particular well were studied in detail when there was a disagreement and a conclusion was reached in conjunction with the operating people and with me as to the well, as to what was the most reliable source of information with respect to any particular well in trouble. Generally, there was little difficulty in reconciling the differences.

Q. Do the records you speak about show the weight and kind of tubing and casing in the wells of the company?

A. They show the kind and size and only in some instances do they show the weight.

Q. How did you test it to determine whether the pipe in your analysis of the Hope Company's purchase vouchers was the same as the pipe now being used in the Hope System?

612 A. Practically all of the pipe that Hope has bought is still in its wells—certainly a large portion of it is. We ascertained by an analysis of the purchase vouchers for the greater part of what they had bought that there were certain weights of each particular kind and size in certain proportions. Being unable to find out exactly what existed in each and every well, we necessarily had to take the proportions of casing of the different weights as actually purchased by the company, for the purpose of this reproduction cost new. There was no other reasonable alternative.

Q. Then you did not know which wells contained used tubing and casing and what portions had been retired.

A. No; as to each well, we have no knowledge of what was new when it was put in, and what had been previously used by the company.

Q. Is it true that the weight in pounds per foot of casing and tubing is an important matter in determining this cost per foot?

A. Indeed it is.

Q. Then for example on page 4 of Exhibit 16–C, if all the two inch cashing were four pounds per foot instead of five pounds per foot your estimate would be approximately twenty percent of $200,000, in excess of the actual, would it not?

A. There are no figures on page 4 that would indicate

613 such to be the case.

Q. Do you see column 4? "Pounds per foot" on page 4, Exhibit 16–C?

A. Yes.

Q. You use five pounds, and if the five-pound pipe were four pounds, then referring to column 7, the total cost would be twenty percent less, or $200,000.

A. But the company did not purchase enough four-pound pipe so that that would be impossible.

Q. That is an example. We might run through the whole computation.

You said that you did not know what tubing and casing was in the company's wells, whether it was used, new, or portions of it had been retired, nor did you know the weight?

A. As to any individual weight that is correct; yes, sir.

Q. On page 4 of Exhibit 16–C, if all of the 6$\frac{5}{8}$ths inch casing were 17 pounds instead of 20 pounds, the difference would amount to approximately $455,000 on a similar computation.

* * *

614 The Witness. That is correct.

By Mr. Springer:

Q. Then the pipe weights which you have used are based upon your own study, without relation to the facts in the case, and another engineer might prepare a similar study and reach different conclusions?

A. As to the first question, I prepared my study based on the facts in the case as to what weights of casing and tubing of the different sizes the company had purchased in its history, which is a very good indication of what remains. What another engineer would do, of course, I do not know.

Q. But did you say that you analyzed only a percentage of the pipe purchased?

A. We analyzed practically all of the pipe and casing purchased by the company over its history—the oil well pipe casing.

Q. But you did not make an analysis of the pipe, casing, and tubing in the gas wells purchased, did you?

A. No; that was taken to be the same weight on the average as the wells in which the company placed the tubing itself.

Q. Mr. Rhodes, you are aware of how the Hope Company runs its warehouse, are you not? I mean by that, that they buy large quantities of pipe and that may be transferred to

615 the Hope Construction and Refining Company, and may never get into the Hope system?

A. That may be; yes, sir.

Q. If there are any errors in such a transaction, that is reflected in your reproduction cost new estimate, is it not?

A. No reason to expect any errors. The wells are all substantially the same depths and built by the same people, they would be likely to have the same weights of casing and tubing from year to year as the needs of the situation changed.

Q. But you do not know that to be a fact, do you?

A. I am not certain as to exactly what was sent to the Hope Construction and Refining Company.

Q. They often transferred pipe to the Reserve Gas Company?

A. How often, I do not know.

Q. At the bottom of page 18 of Exhibit 16–A, you have set out various units of cost encountered in well-drilling operations. Do you have a break-down by units of these costs?

A. I described classes of costs and the working papers disclose in great detail all of those costs.

Q. You state that you made contractors' allowances?

A. That is correct.

616 Q. And did you also state that all of the property would be built by contract under your assumed construction figures?

A. No, sir.

Q. Will you correct me on that?

A. I stated that the Hope Company, or the companies who owned the property, would furnish all of the materials entering permanently into the construction, except the building materials and the like, and that all wells would be drilled by contract, all pipe lines laid by contract, all compressor stations built by contract, but that some of the detail work in connecting lines to the wells and items of that nature would be carried out by the company's own forces. Most of the installation would be by contract under this set-up. Most of the materials would be furnished by the companies.

Q. And did you make a uniform allowance for contractors' profits in your estimate?

A. We made a contractors' allowance that was ten per cent in connection with wells and pipe lines where only the installation cost was involved, and about eight per cent on the contractors' costs on the buildings where we had the allowance supplied also for materials.

Q. And on the compressor station equipment?

617 A. On the compressor station equipment, the contractor's allowance was approximately eight per cent of the contractor's cost, but nothing at all for the cost of his equipment—just on the installation of the equipment.

Q. On page 19 you state that you have selected 330 wells on which your studies were based. Did you have the field conditions relating to those wells summarized?

A. They were all summarized in the working papers.

Q. On page 20, you state that there are large quantities of pipe in the Hope system which are not presently manufactured. Can you tell us what type of pipe that is?

A. You are referring to casing and tubing, are you not, rather than to line pipe?

Q. That should be casing and tubing.

A. The working papers will show just which were the weights and sizes that are not now being regularly manufactured, and I would have to refer to that to refresh my memory.

Q. On page 20, you state that the unit prices used for casing and tubing are based on the lowest quoted prices less 2 percent cash discount, plus freight to average destination. Should there be an additional discount for quantity purchases?

A. They are not available in casing and tubing.

Q. Recently you referred to your knowledge of the drilling of 3,000 oil wells over a period of time.

618 A. Yes.

Q. Do you know whether or not the casing and tubing purchased for those 3,000 wells were purchased at a discount in addition to the ones reflected on page 20 of Exhibit 16–A?

A. They were built at a different time, and I do not know what prices were paid. I have been assured, however, by the purchasing department, which is purchasing materials and has been right along, that for a considerable number of years there has been no discount on the casing and tubing except the discount of 2 percent for cash, and that the drillers of these wells which were in the East Texas oil fields all paid the same prices.

Q. Does that mean that the casing and tubing prices are twenty percent higher than pipe prices?

A. Roughly.

Q. Do you know the tonnage in the Hope system for casing and tubing and transmission pipe?

A. Not offhand.

Q. I believe you have stated that the amount of money was about equal?

A. If I recall correctly, and I would like an opportunity to correct the figures after looking them up, that some 240,000 tons of line pipe was involved and about 150,000 tons of casing and tubing.

619 Q. On page 21, referring to pipe lines, in your final computation of reproduction cost new for pipe lines, did you rely upon the book inventory?

A. The book inventory, the accounting department inventory, and the engineering department inventory were compared and discrepancies found. In many cases the discrepancies were remedied by new surveys and actual field measurements on those lines, and with the exception of the discrepancies which we did find, we reached the conclusion that the book records were acceptably correct.

Q. How did you determine the weight per foot of field and transmission pipe lines?

A. In the case of the major pipe lines—and by that I mean the larger diameter pipe lines such as ten or twelve inch lines, from ten to fifteen miles long or more—there was generally available a record as to the actual weight of the pipe purchased. In the case of the field lines, the records were not so clear, and again they found it necessary to rely on the weights as purchased by the company over a period of years.

Q. But under the method of operating the warehouse of the Hope Company, is it not true that when the pipe enters the warehouse, it loses its identity relative to the weight and number of feet?

620 A. In general, that is so.

Q. In general?

A. Yes.

Q. Is it possible under this method that lightweight pipe of a certain size could be sent to a new construction job, and capitalized in the original cost at a much higher value than the actual tonnage?

A. I don't know what might have happened. I have not examined the details of such transactions.

Q. On pages 21 and 22, you refer to drips. Did you use the book inventory of drips in the trunk lines in your classification of pipe size?

A. The determination of the number of drips of each pipe size was made largely in the field from the records and consultation with the operating men as to the drips. The book inventory was only relied upon incidentally.

Q. Did your men physically inspect the drips?

A. Obviously not, because they are buried.

Q. Did you use book inventory of valves and fittings in the branch lines?

A. No.

Q. What was your source of information?

A. We examined in detail all of the records available with respect to the approximately ten percent of the mileage of the branch lines geographically well scattered through-
621 out the system.

We determined what was there by field records, and we determined from the men in the field what valves there were. In the case of most of the valves, they were in obvious locations and it was merely the unusual valves that were in question, and required investigation, but in general the inventory of valves with their attendant fittings was based upon the field investigations, and by field, I mean both physically in the field in some cases and in consultation with the men who actually had occasion to operate the valves from time to time in the handling of the gas through the system.

Q. On page 22, you stated that the unit prices of the pipe used are based upon the prices quoted by manufacturers generally applicable to carload lots, f. o. b. mill, less 2 percent for cash and 10 per cent discount. Does this carload price given effect to current basic discounts which apply?

A. This carload price less the 10 percent and 2 percent is the price that I have found has been paid for more than a million and a half dollars of pipe by this company and some of its affiliates during the last year or so.

Q. Is it not customary in large quantity purchases
622 for basic discounts to be granted to the purchaser?

A. I don't know what you mean by "basic discounts."

Q. It might be as high as another 50 percent, might it not?

A. No.

Q. I think I will withdraw that; it should be fifteen percent. Does that sound better, Mr. Rhodes?

A. I am not sure that I know what you mean by a basic discount.

Q. Is it customary in the quotation of prices of pipe to give a list price and then a basic discount?

A. To answer that directly, pipe quotations are based first on what is sometimes called car prices. For each and every kind of pipe and most weights, there is a list price that is the same list price practically for all manufacturers. The people who are buying pipe at the time have furnished to them discount figures, maybe 50 percent or whatnot—which figures are also published in the trade journals which, if applied to the list prices, will give the mill price, for the number of feet that is charged for small quantities of pipe. Unless you are a large purchaser, you would pay those prices until you made purchases, approximately a trainload of pipe, but if you are a large purchaser of pipe, you automatically get a ten percent discount, even on ten or fifteen car-
623 loads which the purchaser who is less regular in his purchases would not get until he exceeded a trainload and then negotiated for it.

Now, when any purchaser of pipe is going to buy more than a trainload of any size, he generally negotiates the price.

In the last year and a half, various discounts have been granted. Taking into account the heavy tonnage of pipe that has been bought by this company and its affiliates, and without any discount beyond the ten percent and the two percent, the two percent being for cash, I reached the conclusion that as related to the property of this size, it would be possible to obtain further discounts, not to exceed ten percent of the whole price on all of the pipe, but that no further discount could be available with respect to the purchase of the casing and the tubing.

Q. You spoke of buying a trainload of pipe. Would it require a trainload of pipe to reproduce the Hope system?

A. At least.

Q. And if the Hope Company purchased requirements for reproducing its system within a three year period, under its purchasing arrangement with—did you say the Standard Oil of New Jersey?

A. I don't know what its arrangement is with the
624 Standard Oil of New Jersey, but they do have large purchases of pipe made from time to time with Standard Oil of New Jersey's purchasing department.

Q. That on a negotiated purchase of the requirements to reproduce the pipe line and well systems of the Hope Company, it is very likely that there would be an additional discount, which is not reflected in your inventory here?

A. No. The additional ten percent which I have reflected in my estimate is my best judgment of the saving to be made after full consultation with the purchasing department of the Standard Oil Company of New Jersey, and it is based upon the opinion of the men who purchase most of the pipe for them that ten percent would be a fair amount to expect on these special negotiations.

Q. If Hope Company bought it directly in the quantity required to reproduce its system, would it get an additional discount?

A. In my opinion, they would get this ten percent discount and no more.

Q. Could you state the name of the person upon whose opinion you rely on the large quantity purchases of pipe?

A. Yes, I could.

Q. Will you?

A. I don't know whether I should or not.

625 Q. You relied on that man's opinion?

A. I was guided by his opinion, yes.

Q. I do not want to ask you for anything——

A. (Interrupting.) I am not sure that I should reveal his name. If it means anything, I can do it.

The Trial Examiner. Did he express that as his confidential opinion?

The Witness. Not in the same way that I received this confidential information from contractors and constructors of pipe lines.

The Trial Examiner. That is his business, to get as much discount in purchases as possible?

The Witness. Yes, it is.

Mr. Cockley. I see no objection to Mr. Rhodes naming that person, unless he has some personal relations with him.

The Witness. I have no personal reasons, and I will look up his initials, I think I have them here. It is A. J. Kelly. He is rated as the Assistant Purchasing Agent, Purchasing Department, Standard Oil Company of New Jersey. And at the time I talked with him, he was the ranking man available, the purchasing agent himself being away.

By Mr. Springer:

Q. On pages 22 and 23 of Exhibit 16–A you state that the construction conditions were surveyed on a portion of the Hope system trunk and branch pipe lines, and recorded in

626 the nearly two thousand field reports. Did you make a

personal inspection of the trunk or field lines construction conditions?

A. No, not in detail. I traveled and criss-crossed the lines of the company a number of times—many times, in fact over the past few years—and I have sent out men to make these inspections who have done construction work under my direction.

Q. You had experienced men then, you say, advising you of these conditions?

A. That is correct.

Q. How many men?

A. I think a maximum of about six.

Q. And could you tell us approximately how much experience each man had had?

A. All of the men had been with my firm for many years, and most of the men had actually worked under my direction on pipe line construction for ten years or more. One of them in particular had actually worked on construction of lines in West Virginia, as well as having worked for me for years.

Q. That was Mr. Evans?

A. That was Mr. Evans.

Q. On page 23, you say that most important are the con-
627 ditions affecting the cost of ditching. What conditions as to depth and width of ditch, and rock and soil conditions did you assume in your reproduction new estimate?

* * *

The Witness. The depth of the ditch from which we determined the cost was the depth of the ditch actually existing on the company's lines as found by the depth actually there when the lines were inspected, taking that into consideration, and also a lot of previous inspections. The width of the ditch was that in addition to the diameter of the pipe which we ourselves have found necessary in the construction of pipe lines. The amount of rock was determined by the inspection of the outcrops and
628 the character of the back fill, road cuts and information of that general nature. Other conditions affecting the cost, such as rocky soils, were taken into account, or swampy ground. The slope affects the cost of the ditch, particularly if steep slopes. All of these factors were facts which were recorded by these men who inspected it in detail, and know just what percentage of the lines of each size would encounter the different kinds of construction difficulties, what percentage of rock would be expected to be found.

Q. And all of that is detailed in your working papers?

A. All of that is detailed in our working papers, starting with the field inspection, and with maps and carrying right through to the summaries and the prices.

Q. In arriving at your factors in the cost of ditching, did you consider that many miles of the Hope Company's pipe lines are not underground.

A. We took into account the proportion of the lines which are still above ground.

Q. How did you make that estimate?

A. From every possible source of field inspection. In part by the records of the company. Those lines were largely the small two-inch lines.

Q. Are you sure that there are no large lines that are
629 not underground?

A. I stated they largely consisted of the small two-inch lines.

Q. Do you know the total mileage of the pipe lines on top of the ground in the Hope system?

A. I could refer to the working papers and find out. I have not that available here. There is approximately 3,000 miles of production system lines and approximately 1,000 miles of transmission lines. A small part of the field lines is above the ground, and that is reflected in the pricing which is all shown in detail in the working papers.

Q. Is there a segregation of pipe lines underground and above ground in your development of unit costs, or did you apply an average to both?

A. In the development of unit costs, we found the proportion of each size of line that was above the ground, and the proportion of each size which was below ground and its corresponding depth. The unit price was determined for the above ground pipe and the below ground pipe, and a weighted average unit price was arrived at for all of the pipe of each size, taking into account the proportionate lengths above and below ground.

Q. Do you know what percentage of field lines are above ground? Do you know approximately?

630 A. I don't recall the figures. I will be glad to look it up.

Q. Would it be as high as twenty per cent?

A. I would not think it would be that high. I would be glad to look it up for you. [Examining papers.]

Q. Would you please give us the proportion for each size of line that is above ground tomorrow some time?

A. I will have to look it up, yes; and I will be glad to give it to you.

Q. On page 24, you state that the unit costs for pipe lines are based upon the company's furnishing materials and the contractors installing those materials, in permanent locations?

A. Yes.

Q. From what responsible contractors did you secure bids for the installation?

A. I did not secure bids from any contractors. I did secure contractors' records of costs in West Virginia.

Q. How do you know what a contractor would charge for installation?

A. I estimated a fair price would be paid to contractors for installing these lines. That price was based in part on consideration of the actual cost to the contractors who have
631 actually laid lines in West Virginia as well as other costs.

Q. You say "in part." That was the basis for your estimate?

A. The actual costs in West Virginia were taken into consideration; yes.

Q. Would that be a check against the ordinary estimate of your hypothetical crew, plus ten percent, in determining the cost of installation?

A. I did not set up any hypothetical crews. I determined practically what it would cost to reproduce these lines under the conditions which actually exist in West Virginia.

Q. Don't you have in your working papers for the development of unit costs, labor performance and the number of men required to construct a given portion of the Hope Company's system?

A. Those unit costs show for each sized line in each character of country and each character of holding and each amount of clearing in the right of way; they show in detail the numbers of men required for each operation and the cost required for each operation of the sizes of pipe that determined the particular class of equipment that is required in the building of lines. Light equipment, for instance, is required in the small pipe, and heavy equipment is required in heavy pipe. Those details involve
632 something like a hundred different combinations and permutations of the conditions, for which details have been set up as to the daily progress, the number of men, the equipment that would be required, and everything that is necessary to determine the costs in any and all of the widely varying construction conditions in this State.

Q. On page 24, you speak of ditching. Is it true that machine ditching costs much less than hand ditching?

A. Not universally.

Q. What are the exceptions?

A. When the country is hillier than a slope of about one in four or one in five, it is practically impossible to use machines in ditching. Up to that slope it is possible. In flat country, the ditching machine will dig a very, very cheap ditch. It requires no assistance except that of men to trip out the ditch and to grade the ditch to cover the variations in the depth required. As the country gets rougher, this ditching machine has to be helped with a tractor or bulldozer to grade the right-of-way, and as the country gets heavier and harder and harder, more and more equipment must be with the ditching machines, so that in what is called, or what is classed here as complete machine ditching, is about five machines besides the ditching machine. Even
633 that part of the complete machine ditching in places is
cheaper than the hand ditching, but when the country is broken, as it is in West Virginia, the cost of getting the machines over the valleys and up the hills that are too steep to use this machinery is so great that all of the saving of the ditching machine is completely lost in the cost of moving the machinery.

Q. Do you know whether or not machine ditching has been used on a large portion of the Hope system?

A. It has been used on much of the Hope system.

Q. You have used in your estimate of reproduction cost new, hand ditching for 4,000 miles of pipe line; isn't that true?

A. The final result is that, but the working papers will show what it will cost with machine ditching, and it would seem that the hand ditching is cheaper than machine ditching in this territory.

Q. Is that based upon experience?

A. It is based upon the experience which we have had. It is based on information that I have gained from contractors who have used this method of ditching in the country, namely that the machine ditching does not pay or save anything. You can do the work just as cheaply by hand, the detailed analysis that appears in the working papers shows that to be the case.

Q. Could you name the contractors you have just re-
634 ferred to?

* * *

The Witness. William Brothers built a sixteen and twenty inch line from a point near Cedarville to a point not very far from Wheeling. They used a great deal of machinery on that

line and they had a great deal of trouble with that machinery. I was told by both of the Williams Brothers separately and by their general superintendent who handled the job that the machine work did not pay. I believe there were three gangs equipped with machines and one gang by hand, and the hand gang did the work as cheaply as the machine gangs.

By Mr. Springer:

Q. Do you know the construction experience of Williams Brothers in building a line for the Manufacturers Light & Heat Company?

A. That is the line to which I referred.

Q. And they concluded it would be less expensive to have used hand ditching?

A. They said, as I have already stated, that they saved nothing by the machine work.

Q. Mr. Rhodes, how did you determine the labor cost for ditching?

635 A. The labor cost of ditching is the composite result of starting out with what the average laborer will do when he has easy digging in flat country without any rain to interfere, and averaging as to what he does when things are going right. We started out with that, which is approximately half a yard per hour. Men do not dig that much in West Virginia for a number of reasons. First, the soil is rocky and slows him down, and probably you could not expect more than about four tenths of a yard per hour. I am now talking in rough figures by the way, for purposes of illustration.

In the other extreme, on a very steep hillside, a man can dig perhaps not much slower than he can dig in the low country, but other men have to be made available to shore up the back fill to keep it from running downhill. Many of these hillsides on which pipe lines are built in West Virginia are so steep that if you start a rock rolling it will keep on rolling until it gets to the bottom. It takes fully twice as many men to take care of the digging of a ditch in that kind of a country.

Of course, rock enters into it. Whether it be loose rock or hard rock—all of which is taken into account—but to determine the cost of hand ditching or any other kind of ditching in
636 a country as difficult as West Virginia is a long process, but all of the details are available in the working papers.

Q. Did you check your estimate by the actual experiences of the Hope Company in hand ditching?

A. Yes.

Q. Is your estimate higher or lower than the actual experience of the Hope Company?

A. I do not recall the exact figures, but our performance for the different sizes of line, and the different construction conditions were harmonized with the known costs of a great many lines. Dividing the country as we did into different classes of country, we were able to take advantage of the cost of digging in part of the country other than West Virginia, where we knew the construction conditions. We had lines, for instance, in Pennsylvania, where we classified the country as it is here. We had lines in Kansas and at various places, so that we would know what the costs are. All of these costs entered into it. We did not depend solely on the Hope's man-hour performance in building one line, but we depended on other people's performances. Now, as to how the Hope experience agrees with the most exact figures, I don't know.

Q. Those performance figures are available, are they not?

637 A. They are available on that analysis which was mentioned this morning where the working papers have not been finished up for general informaion.

Q. Of course, the ditching conditions in the Middle West are not comparable to the ditching conditions in West Virginia, are they?

A. Yes, they are: in the same character of country, the same rock, and the same soil. If you start in with easy hand digging in flat country, it does not make any difference what state of the Union it is in, but how much rock may be in the soil will affect the cost, and we take that into account on the West Virginia rock. We do not take it into account on the Colorado rock.

Q. Do you know the total cubic yards of excavation which you assumed would be required to construct the pipe line of the Hope system?

A. I have not calculated it.

Q. Do you think you could calculate it?

A. Yes; I could.

Q. You do not have those figures available now for computation, do you?

A. They are available in Clarksburg, but the actual computation would take several minutes of the time of this hearing, or maybe half an hour.

Q. How much did you assume a man could dig in a day,

638 for your reproduction cost estimates?

A. We started out, as I say, with perfect digging, where a man would dig half a yard an hour.

Q. You did not use that in your final estimate?

A. We started out with that, and adjustments were made for rock and for slopes and for hillsides. If I recall correctly the average was between something like a third of a cubic yard per man per hour, but it is so complicated with rock and other features that in itself it means little.

Q. Will your working papers show the rock percentage assumed in your ditch digging?

A. They will show the rock percentage that was found by field inspections, and was used in determining the unit costs.

Q. You made spot checked for rock conditions?

A. They were checked by careful examination of some two thousand miles of right of way.

Q. And throughout your reproduction cost new estimate, you have assumed that all of that property would be reproduced by using all new material, isn't that so?

A. I priced all of the materials as new materials, Yes, sir.

Q. Do you know that there are hundreds of miles of the Hope system which were constructed with used pipe?

A. I don't know what exactly the mileage is, but I do
639 know that there is a great deal of pipe in the Hope system that was once in another location and was purchased new by Hope originally.

Q. How do you know that?

A. As to the exact mileage I do not know, but as to the amount of pipe that has been bought and various movements of the lines with which I am familiar that necessarily followed.

Q. Do you know that H-199 is constructed with secondhand pipe?

A. The number means nothing to me. I will have to know where the line is.

Q. Will you please turn to page 25 of Exhibit 16-A. Will you describe the compressor station equipment which you say was priced for the nearest of size and type, when no equivalent was available? Have you already given us that?

A. I gave you that this morning, as far as I could go by memory.

Q. What check did you make to determine whether the price quotation you used in your estimate of compressor station equipment were the prices then paid for actual purchases in kind and quantity required of the Hope System?

A. First we asked the manufacturers to give such prices and we obtained prices from the manufacturers which purported to be that. We found that some manufacturers were giving us
640 lower prices than other manufacturers. This was particularly true as to one manufacturer, and we made very careful oral inquiry from that manufacturer by visits to his factory to find out whether or not the prices he was giving to us really reflected the price at which he was selling goods, and as a result of that extended investigation, we have every reason to believe that he was giving us prices that were actually in line with current sales prices. Furthermore, they are in line with our own experience in buying 50 thousand, 75 thousand horsepower of such equipment within the last ten years.

Q. What is the name of that manufacturer?

A. The manufacturer particularly asked us not to put in the record his name.

Q. Had the National Transit Company manufactured many of the compressor station units that were used in the Hope system?

A. A great many.

Q. And that is a subsidiary of Standard Oil of New Jersey, is it not?

A. No.

Q. Was it once?

A. It was once a part of the Old Standard group that was dissolved many years ago.

641 Q. Did you rely upon prices quoted by the manufacturer who is selling incognito here, whose prices were the lowest for compressor station equipment?

A. Where the prices he quoted were the lowest, we used them, but where they were not the lowest, I do not recall exactly where, but in some cases he was not the lowest, and I used other prices. In other words, I tried to get the lowest priced compressor station equipment that would be used in these stations.

Q. Did you check those quotations against actual purchases in the last two years?

A. The actual purchases of large compressor units are not sufficiently common. We have purchased a great many units ourselves, and the last purchase was some three or four years ago, of those large units, and I reached the conclusion that the prices that we had quoted and used on the units were pretty much rockbottom prices.

Q. For 1938?

A. For 1938 and 1939, and in most cases they were lower than the prices we had actually paid for the equipment which we bought.

Q. Did you consider the fact that much of the Hope Company's compressor station equipment has been substantially altered by the company since it was pur hased?

642 A. No. We priced all of the equipment that we priced at the prices of like equipment.

Q. When you say "like equipment" no such equipment exists.

A. By "like equipment' I mean if the company owned a four-cycle twin tandem gas engine with a 36-inch stroke, twenty-inch diameter of piston, I priced the engine at what it would cost for such an engine today without reference to who made it. I used the lowest prices available today for an engine of such a description. Details of manufa ture may be different, but the engine is essentially the same engine.

Q. You mean essentially in performance, but it is really substitute equipment, is it not?

A. It being impossible to buy equipment such as now exists, without having to buy it made especially to order, I priced about what commercial equipment of the same description could be obtained for today; where I have no means of checking exactly the same size and dimensions, I took equipment that could be obtained today that was nearest in description to that which the company owned.

Q. The price quotations which you secured from manufacturers of equipment could not reflect the price of Hope's altered equipment, isn't that so

A. (No response.)

643 Q. Hope has made substantial alterations on some of its compressor station equipment, and when you get quoted prices for substitute equipment, they could not possibly reflect the cost to reproduce that particular equipment?

A. I am reflecting the cost of present-day commercial equipment of identical description. A twenty-inch or thirty-six inch stroke single tandem four-cycle gas engine is that whether it is made today or was rebuilt by the company.

Q. Did you price any of the engines on the basis of weight?

A. No, I do not recall of a single case where I priced them on the basis of weight, except to the extent of weight being a factor in freight. Engines not now obtainable as such are priced on the

price per horsepower of the nearest comparable equipment commercially available today.

Q. On page 25 of Exhibit 16–A, does the miscellaneous equipment which you stated was about one percent of the total include the machine shop equipment located at the compressor stations?

* * *

THE WITNESS. The major machine tools, costing roughly $400 or more were specially priced. This miscellaneous equip-
644 ment of numerous small things like small grinders, related to machine tools or maybe a small drill press, as well as hand tools, as well as all kinds of odds and ends which comprise a very long list as related to any one station.

Q. Where did you get your prices for them?

A. The manufacturers of light equipment.

Q. On page 26 of Exhibit 16–A, in determining the cost of erecting compressor station equipment, did you give any consideration to the experience of the Hope Company at the time those stations were constructed?

A. No.

Q. It is true that the Hope Company actually erected compressor station equipment gradually, over a period of years?

A. That is correct.

Q. Would there not be a substantial lowering of the costs in erecting compressor station equipment in your three-year wholesale scale, as compared with the Hope Company's actual experience?

A. There should be no substantial difference, for Hope's whole costs were known. Our experien e in erecting equipment of this kind was compared by conference with the experience of the Hope men who had been erecting equipment and it was found that our man-hour experience for a given size and kind of machinery was reasonably in line with the company's own
645 experience.

Q. Do you mean that you adopted piecemeal experience for your wholesale construction estimate?

A. It is not piecemeal constru tion to erect all of the equipment in a given compressor station. The operation of that size is one that would generally be handled by the company's particularly skilled laborers and riggers, and the number of men employed in the company's operation is such that even the outside men they had to hire were well known workmen. That cost

by the company in building individual stations would be expected to be at least as low as the cost the contractor would be able to meet, even with the erection of a large number of stations on a three-year program.

Q. As a practical matter, though, you could build two compressor stations and completely equipment them in succession, for less than you could build one this year and one next year?

A. Somewhat less, but the labor cost in erecting equipment represents in the aggregate something of the order of five or six percent or thereabouts, so that it does not mean much money.

Q. On page 27 you referred to the installation of compressor station equipment by a contractor with an appropriate allowance. What is contained in that allowance?

646 A. The allowance amounts to approximately 8 percent of the contractor's whole field cost. Out of that allowance he must pay whatever gross income tax is required in West Virginia from him. He must pay any permits or licenses to work in West Virginia. Other than that he must take out his general overheads and set aside something to insure him against abnormal losses which occur from time to time due to unforeseen acts.

Q. Is that all?

A. I think so.

Q. Did you secure a bid from a responsible contractor for the installation of compressor station equipment?

A. No.

Q. How did you determine the assumed contractor's allowance?

A. This contractor's allowance of about 8 percent is the minimum allowance that the contractors look for in this contract work. They customarily, in figuring their costs, like 15 percent to cover the items for which I have allowed 8 percent, and I made my allowance, as in the other work, by contractors, as the minimum allowance for the general overheads and profits that a contractor is willing to contemplate in doing work.

Q. And how did you know that that was the minimum

647 allowance, that 8 percent?

A. The minimum allowance contemplated is arrived at from having let many millions of dollars of contracts and doing all kinds of construction work, as well as having made estimates of millions of dollars' worth of construction work where we ourselves had to stand the loss, if there was any.

Q. You say you have let the contracts?

A. I worked both ways.

Q. What compressor station equipment has been installed on the Hope system by a general contractor?

A. None so far as I know, excepting boilers that have been purchased, that have been erected by the manufacturer.

Q. Does the Hope Company carry on its pay rolls competent engineers and mechanics who are likewise competent to install compressor stations, and who make such installations?

A. Yes. The Hope Company has a nucleus of men who would do that. The men do that who handle the heavy major repairs on the equipment, that are required from time to time.

Q. On page 26 of Exhibit 16–A you state that the inventories were made, station by station, of the essential assemblies of valves and fittings, such as those required for high-pressure gas connections. Was that a physical inventory or an estimated inventory?

648 A. That inventory was made from the drawings available for most of the stations. The greater part of that pipe is not visible—it is buried, and we did not dig it out.

Q. If there are any errors in the drawings, those are reflected in the reproduction cost estimate?

A. Not directly so: We included in the bill of materials for these connections those materials which represent the company practice in connecting up of such equipment, which is in accord with the practice of the industry. If the company had in a thousand pound valve for three hundred pound service we made no allowance for that, but we made allowance for those major variations in the types of connections which affect the cost.

Q. Then you estimated the inventory?

A. No.

Q. You said some of it was not visible.

A. That is true, but there were available drawings. The connections between the compressor and the line pipe to who *who* knows compressor stations, are obvious. You don't know what make of valve may be underground, what make of fitting and would of necessity depend upon drawings, whether the fittings be screw fittings or welded fittings or whatnot.

Q. Don't the plant ledgers reflect the quantity of valves and fittings in each compressor station?

649 A. We did not go to the ledgers; we went to the drawings which showed the valves which were necessary in the operations of the stations. If there were any valves there that were not used, they were not shown on the drawings, and were accordingly omitted in this inventory.

Q. On page 26, you state that the cost of installing complex connection piping is based on experience. What experience is that?

A. Labor performance of erecting different kinds and sizes of fittings, and valves and so forth, has been rather well standardized. We secured from two large piping contractors, the standard labor performances, and we priced the labor costs of certain jobs which we had done ourselves, and in which we had completed detailed information, to find out what adjustments these contractors' performances—piping contractor performances were necessary to reflect the cost of piping of the nature which exists in compressor stations. We found the amount of that discount, and in all of our pricing we applied that discount to the labor performances these piping contractors say is necessary to install piping. Their figures are generally based on piping buildings that is up above the floor. In compressing station piping, most of the piping is about at the ground level at the time the station is built, and the discount below the customary performances reflect that fact, based on our experience in laying pipe for compressor stations.

650

Q. Did you study the Hope Company's experience in the installation of the complex nature of the piping?

A. The Hope's experience in that connection was not sufficiently detailed to be of any assistance to us.

* * *

663 Cross-examination (continued) by Mr. Springer:

Q. Mr. Rhodes, on page 27 you state that a separate allowance is made for the cost of hauling materials to each compressor station at average cost per ton reflecting distance and the kind of road. Are those average costs per ton based on a contract price?

A. No; they are based on the estimated cost of hauling materials, and the basis was the lowest ton-mile cost of hauling pipe.

Q. Was the cost based on experience, then?

A. All of the costs here are based on experience.

Q. Of the Hope Company?

A. No; on the experience of my organization, and as I said before, on the results of other people's experience, including, to a limited extent, the Hope Company's experience, but in hauling, Hope Company's experience appeared only to the extent of consultation with their operatives in their own work. The figures

are not exact figures based on Hope's experience, since they are not available over any considerable mileage of line.

Q. On page 27, what type of property do you include
664 under "Miscellaneous minor property?"

A. All of the other accounts than buildings, structures, gas wells, pipe lines, compressor station equipment and lands and rights-of-way. All other classes of property which, in the aggregate, only amount to three per cent of the total. Meters and regulators, for instance, shop equipment, general equipment. They cover the principal items.

Q. How did you price that miscellaneous property?

A. Using the same general methods as have been described with respect to other property. Items of property that were identifiable as such, for instance, as machine tools, not in the shops, or regulators, meters or fittings—they were all inventoried by making a check between the records in the offices of the company and the existence in the field of the particular things in question.

Prices were all obtained from manufacturers who were requested to give us the lowest prices available and the labor of installation was based, as in the case of compressor stations, on the same basic experience. Most of the equipment contained in these miscellaneous accounts is of the same general type as is contained in the major accounts.

For instance, valves and fittings involved in the meters required just the same method of treatment in pricing as valves and
665 fittings involved when they are in a compressing station. A lathe in the general shop is treated the same as a lathe in a compressor station repair shop.

Equipment like drilling and cleaning equipment, which of course is not a thing which is erected, is priced at cost delivered to average destination.

Q. Did you receive manufacturers' quotations on the drilling and cleaning equipment?

A. We did. In fact, the pricing of drilling and cleaning equipment, which is a very complicated system, was actually done for us by one of the most prominent dealers in that equipment, based on their current sales prices.

Q. Who was the dealer?

A. I don't recall at the moment. I would have to look it up in the working papers.

Q. You said he was the most prominent?

A. One of the most prominent. I think it was the Oil Well Supply Company.

Q. On page 28, why did you not use reproduction cost of land instead of cost to reflect what you term "current value" in your reproduction cost new estimate?

A. In the first place, you cannot reproduce land.

Q. Should it be included in a reproduction cost estimate then?

A. If it is properly marked for what it is.

666 Q. Then you do not have a reproduction cost estimate of land in a reproduction cost estimate of the system, do you?

A. This land—that is technicalities of words—but land is in here and it is clearly explained how the pricing of land was arrived at—the most important site being the office building here in Clarksburg, and it was carefully explained that this was all priced at the same price per acre as was paid for the neighboring lot which was purchased in July 1938.

Q. You used what are known as market prices for other items of property. Do you say now that you have used market prices for land?

A. Not in the broad sense that I analyzed real estate transactions throughout the City to arrive at a present value. In this particular instance, there was a parcel of land contiguous to the existing parcel, almost the same size, that faced on the same two streets. Whether that was a market price or not, it was the price the company actually had to pay for the land, and I deemed it to be an appropriate measure of the current value of the entire lot.

Q. Wouldn't you be consistent if you took the price paid by the company for other items of property?

A. No; because this was a recent thing. It is the only transaction in the neighborhood that was available, and that was used. I might have used book cost of land, but I deemed
667 it more appropriate in cases where I had more recent information as to the prices paid for land, to use the more recent prices.

Q. The land in the Hope system has not been purchased within the last two years, has it?

A. That particular parcel which I used as the guide for the current value of the office building site was purchased in 1938.

Q. For an addition to the office building?

A. That is correct.

Q. Would any other tract of land have been as satisfactory?

A. I don't think any tract could be quite as satisfactory as an abutting tract of practically the same size as the one involved.

Q. Was there a house on the first tract of land that was demolished?

A. Which tract do you refer to? The one which was recently purchased or the original tract owned by the company?

Q. The one that was recently purchased.

A. Yes; there was a house on that.

Q. And what adjustment did you make for that?

A. None whatsoever. The tract of land was brought for the purpose of building an office building, and it was known
668 that the house would have to be demolished and is properly a part of the cost of land and is customarily so considered.

Q. Was the building on the lot a part of the consideration, do you know?

A. I know only that they bought the land on which to build the office building, and tore the house down not very long afterward.

Q. On page 28, you state the Hope Company owned rights-of-way for which no payments were made. In your reproduction cost estimate, do you assume that payments would be made for those rights-of-way?

A. I assumed that they would be obtained free as they were obtained, mostly being rights-of-way that were included in the leaseholds.

Q. You also state that the company owned rights-of-way aggregating 180,125 rods for which no payments were made. Will you please turn to Exhibit 16–B page 6, and explain the difference between the 180,000 rods and the 252,000 free roddage grants shown, using round numbers?

The Witness. On page 6 of Exhibit 16–B, 252,911 rods is a balancing figure, so that the sum total of the roddage
669 is equal to the total roddage of the pipe lines. The 180,000 rods, I cannot specifically name without reference to the working papers. It may be cases where there were specific grants of rights-of-way for which no charges were made, whereas the 252,000 includes such specific grants as well as those which are incidental to leaseholds.

Q. Would you be able to furnish the explanation later?

A. I would be glad to.

Q. You state that the Hope Company, page 28, of Exhibit 16–A owned 980,655 rods of purchased rights-of-way. Please turn to page 6 of Exhibit 16–B and also to page 14 of Exhibit 16–D and explain the difference between the apparent total of 992,801 rods.

A. I would have to look up the working papers to find the source of the differences. In the text, the figures are given for illustrative purposes, and in the priced inventory, they are based on actual figures, but they can be reconciled and I would be glad to do so.

Q. There is a difference of 12,000 rods between the detail which you show and the text figure. That is so, is it not?

A. That is the approximate difference, yes.

Q. You might have included the rights-of-way on the coke oven gas lines?

A. Not intentionally.

670 Q. On page 29 of Exhibit 16-A, you state that the average cost per rod of the present trunk line rights-of-way was taken as the measure of reproduction cost. Does this average cost include the cost of clearing rights-of-way?

A. It does not. It is the payment to the farmer for the right to build the line across his land, plus the damages paid to the farmer, plus the cost of securing the paper, and so forth, but there is no clearing of the rights-of-way included.

Q. In what account did you include the cost of clearing rights-of-way?

A. As a part of the cost of constructing the pipe line, under which activity it is incurred.

Q. Is that in accordance with the uniform system of accounts prescribed by the West Virginia Public Service Commission for gas utilities in 1939?

A. I do not recall the details of that particular account, but I have included the cost of clearing as a part of the cost of the operation under which it is performed.

Q. Does the cost of the rights-of-way vary with the size of the pipe line constructed?

A. In general, yes; but the company's record of experience did not permit that determination without an unwarranted amount of work. We found the company's records were
671 relatively clean-cut, as between trunk lines and field or gathering lines, and we studied them separately and arrived at the unit costs which are set forth in the priced inventories.

Q. On page 30 of Exhibit 16-A you list the components of your undistributed construction costs. Can you translate each percentage into the respective dollar amounts of your reproduction cost new estimate?

A. Such a translation is a mere matter of arithmetic. These percentages, however, were first agreed to in the former Cleveland cases, and used by the Ohio Commission. I merely adopted them in the aggregate.

Q. Did you make any check to see whether they were proper in your reproduction cost new estimate in this case?

A. Yes.

Q. What kind of check?

A. I made two kinds of checks. In the first place, I compared these allowances with actual experience in the construction of properties with which I have been closely associated, which were built by newly organized, independent corporations, rather than by large operators in the business, and I found as a result of those checks that the aggregate amount of the first four items, namely, preliminary organization expense, engineering and superintendence during construction, administrative and legal
672 expenses during construction, and taxes during construction. I found that in the aggregate these agreed rather closely with my own experience, but were rather lower than the figures which I had available from that experience.——

* * *

Now, the matter of interest would not conform to the particular experiences of mine because none of them extended over a three-year period.

The other sort of a check that I had been making is evidenced in another exhibit, where the actual cost to the company of building its properties was determined, and it was found in recent years that the administrative costs which included the usual administration of the property in its operations and construction, plus the supervisory of the top portion of the engineering, averaged about 6 percent, exclusive of taxes.

That check of the company's experience in the actual administration of its affairs, combined with the experience in the actual construction of new properties by independent corporations, confirmed me in my belief that this 9 percent for the four
673 items mentioned was a fair and reasonable allowance which probably would be exceeded in actual practice.

By Mr. Springer:

Q. Now, translating the preliminary organization expense which you have assumed in your estimate of 5 percent, into dollars, roughly would that be $403,600?

A. Roughly, yes.

Q. Now, translating engineering and superintendence during construction, which you have assumed to be 4.5 percent, translated into dollars, would that be $3,631,000?

A. Substantially.

Q. Translating administrative and legal expense during construction which you have assumed at 2 percent, translated into dollars, would it amount to approximately $1,614,000?

A. Approximately.

Q. And the taxes during construction, you have assumed at 2 percent, approximating $1,614,000?

A. The figure is correct, but I did not assume the percentage.

Q. Interest during construction, you have used 8 percent?

A. That is correct.

Q. And translating that into dollars, it approximates $7,100,000?

A. Approximately, yes.

674 Q. Please state the items which you assumed would comprise preliminary organization expense, giving the dollar amount allocated to each item.

A. I have made no assumptions or no break-downs in detail of these totals. As I have explained, I used those which have been previously and repeatedly used in connection with the properties, which I found were in accord with my own experience. I made no break-down except in a study which I made of the properties, with which I was familiar. The details or such as were available, were broken down and classified to fit the set-up of this reproduction cost new.

Q. Can you list the items that ordinarily go to make up the preliminary organization expense?

A. Starting at the beginning, there is generally an investigation of the project to determine its feasibility. It includes investigation from the economic standpoint, from the geological standpoint, and from the legal standpoint.

Following that preliminary investigation, if it is promising generally a more extended investigation is made. If the project is still worthy of consideration, then a corporation is usually organized, which involves legal expenses, and the expense involved in actually forming the corporation. I am talking now from the standpoint of the things done, rather than from the accounting standpoint, because remember, I do not necessarily subscribe to this break-down here.

675

Q. You used it in your estimate?

A. No, I did not. I specifically stated that I used the aggregate allowance as being proper.

Q. In your mind, didn't you use the customary components of preliminary organization expense, engineering and superintendence, administrative, legal, taxes and interest?

A. Only in a general way. It has been my experience in construction of these properties, that it is almost an impossible task to divide the expenses accurately as between these various classifications.

Q. Yes?

A. For instance, in the construction of the Southern Natural Gas Corporation, which I described yesterday, my time was divided between engineering and general executive engineering supervision of the work, and also the executive supervision of all of the corporate activities other than those having to do with relations with public authority and with the bankers. All of the accounting was carried on under my direction.

The question arises then, how should my time be divided, which is between engineering and administrative expenses? I had men working for me in dual capacities. Some of the men that were really a part of this purely corporate organiza-
676 tion for handling public relations work, worked for me parts of the time and part of the time they did not, so that it is very difficult to divide the costs, even as they are being incurred, between these various classifications of engineering, preliminary and administrative.

And I have found that to be the case in the actual operation of constructing the properties. The principal job is to get the property built as cheaply as possible, and the accounts are not kept in a manner during construction periods to facilitate the making of estimates of this kind in any detail.

Q. Do you have any difficulty in relating such costs to direct costs?

A. That generally also requires special thought to compare with an estimate such as made here where the construction—miscellaneous items enter into construction cost, like purchasing, for instance, are included in construction costs. It is necessary generally to separate portions of the cost which may be incurred as a part of your office expenses that should be charged properly to construction.

For instance, on the Southern Natural Gas, there was a considerable amount of construction work, possibly of the order of $1,000,000, which was carried on directly under my supervi-

677 sion, where a defaulting contractor's work was taken over in part, and for building meter stations and things of that nature.

Some portion of my time might be charged to construction, but there is no way of positively arriving at it and even if a decision were decided to try to keep your accounts straight it would necessarily be an arbitrary division of the time of all of the men who were doing work of an administrative nature that was related to the various and sundry activities that were going on simultaneously.

Q. Do you know the cost by classes of property in the 1931 East Ohio-Cleveland rate case, from which you have borrowed these indirect cost percentages?

A. These figures were taken from signed agreements.

Q. Do you know what costs were included in the classes of property to which these percentages were applied?

A. These percentages were applied to all property except leaseholds and working capital.

Q. You don't know what costs were included in the classified property accounts to which these percentages were related, do you?

A. I don't recall the figures; no.

Q. Do you know the class of costs of the property to which the percentages were applied?

A. They were applied to the estimated cost of reproduc-
678 ing substantially the same property that now exists.

Q. Do you know in the 1931 Cleveland rate case whether Workmen's Compensation insurance was included in the classified property accounts?

A. I am quite sure that it was, but I would prefer to look up the records of that particular estimate.

* * *

Q. Do you think, Mr. Rhodes, that preliminary organization expense should apply to operating automobiles?

A. These percentages, if you use them as such, are for the purpose of spreading the costs over the various classes of property, and if any attempt is made to say that this item of expense applies to this item of property and not to that item of property, one would arrive at the most tangled mazes of impossibilities that could be imagined.

Q. Perhaps you started with an amount of money then and spread it on percentages that you thought might be fair?

A. Experience starts with the amount of money that is to be spread over the prime cost, which is also an amount of money, and it is turned into a percentage which we use, in the practical preparation of these estimates.

679 Q. How were you able to determine the proper percentages for overheads, without knowing the amount in the classified basic properties to which the overheads are applied?

A. That question has no meaning to me.

Q. Don't you have any relation between overheads and direct costs?

A. In this way we do. Direct cost could be set up in such a way that there would be nothing contained in them whatsoever except payrolls and checks paid to manufacturers of equipment and supplies. Then you would have a statement: "Here is material paid for to the manufacturers at so much, and here is labor paid for to the workman as so much, and everything else is overhead."

You could make an estimate that way if you wanted to, but in choosing the percentages of overhead to be used, the estimator must have clearly in mind the line of demarkation which I have had in this case, and in comparing my own experience, I have made the same line of demarkation between the prime costs and these overheads, as has been made in the estimate of the reproduction cost of this property.

Q. And I assume that is the same formula that was used in the Cleveland case?

A. Substantially the same formula, but I base my judgment as to the reasonability of these overheads upon my own experience.

679–A In the former Cleveland case, it was assumed that the lines would be built by the company at higher wages paid by the company than contractors paid.

Q. Is it true that the percentage for engineering and superintendence during construction decreases as the cost of the project increase, particularly when the project is based on large units?

A. To some extent it does.

Q. Mr. Rhodes, as an engineer, would you design and construct the Hope system as it exists, if you were retained to build the system now?

A. What would be built now is a matter of the substitute property as a whole. I am really concerned with the engineering cost of designing the property substantially as it exists, within

the limitations of the commercial availability of materials and equipment.

Q. Is the Hope system the most modern and complete system that could be built today?

Mr. COCKLEY. I object to that. That is not proper cross examination and it is not a proper question to ask of any witness.

The TRIAL EXAMINER. Read the question.

(The question is repeated.)

Mr. COCKLEY. I suppose it is true that each year, if you
679–B were to reproduce a property and wanted to put in all of the latest wrinkles and so forth there is not a year that goes by that you could not make a little change here or there or what-not.

The TRIAL EXAMINER. Do you have any objecion to the witness making that statement?

Mr. COCKLEY. No, but it seems to me that we have wasted enough time.

By Mr. SPRINGER:

Q. You concur in that, don't you, Mr. Rhodes? You concur in Mr. Cockley's statement?

A. I concur in what Mr. Cockley said.

Q. Is not the engineering and superintendence during construction of oil pipe line properties comparable to that required for the construction of natural gas pipe line systems?

A. When built in properties of comparable magnitude, yes.

Q. Do you know that the Bureau of Valuation of the Interstate Commerce Commission and the major oil pipe line companies use less than one quarter of your figure of 4.5 per cent for engineering and superintendence during construction?

A. No, I don't know that. But there again it is a question of how much on the engineering is charged directly to the construction, as it is on the Hope's own books, and as it was
679–C in the case of the properties which I have constructed. I have extracted the engineering charged directly to construction and grouped it together as engineering. It is quite customary in building properties, for the sake of simplicity in accounting, for instance, when surveyors are out locating the line, to charge their time and their automobile expenses and so forth to that particular line, and when inspectors are out inspecting construction on that line, to charge the time to the line. And the same in map making or making the drawings necessary.

What may have been the elements of cost included in the prime costs by the Interstate Commerce Commission I do not know, but I do know that you cannot design, supervise the construction, and inspect the construction in pipe lines for a quarter of this figure that is given here, and I have designed and constructed thousands of miles of it.

Q. Do you know that the Bureau of Valuation of the Interstate Commerce Commission uses 1½ per cent for all overhead, exclusive of taxes and interest?

A. No, sir.

Q. Do you have within your knowledge the approximate invetsment in pipe lines in the United States?

A. I do not recall.

* * *

679-E Q. On page 30 will you state the components of your assumed administrative and legal expense during construction?

A. Again, without considering the exact accounting definition of various classes of work assumed, the administrative expense would include elective officers, as the president, vice president, secretary, treasurer and assistant treasurers, and so forth, and in the case of an operating property, it would include all the expenses incurred by and on account of these particular men. These particular men would be assisted by a staff of assistants considerably greater than the staff that is required during the operation of the properties. The accounting department, for instance, would be much bigger, because the volume and the amount of the transactions are greater.

There would be legal expenses in varying amounts, depending upon the circumstances as they developed during construction. There would be printing and there would be telephone and telegraph and automobiles in the use of these administrative officers, in fact the organization to handle the corporate affairs, the administrative affairs, is very much similar to that of the later operating organization, being only very much larger.

679-F Q. Speaking of taxes during construction, what base did you use to compute those?

A. I made no computation. Taxes during construction as they may well be assessed in this State, could easily cause the total of these undistributed costs to exceed the amounts which we have used.

As previously stated I am subscribing only to the aggregate amount of these allowances as being the minimum that could be

incurred in the construction of property such as this property constructed in the manner which I have described.

Q. Does it include the sales taxes and excise taxes as well as property tax?

A. I have made no specific assumptions, but in connection with the sales tax or the gross income tax to be paid by contractors, that comes out of their allowance, and is not included in here. I have made no specific estimates to the amount of taxes that might be incurred.

Q. Taxes are not assessed until the property is completely constructed, are they?

A. As a rule they are, depending upon the customs of the State in question, and I am assured by the attorneys of the company, that in the event of the reproduction of this property, taxes would be most certainly assessed on parts of the property that
679–G were in existence on the tax dates, whether they were in operation or not.

Q. Under your assumed three-year construction program, would properties completed and assessed on a tax date be considered available for operation also?

A. In some cases yes; but in most cases no.

Q. Why not?

A. Because in some cases, property would be exatly ready for operation on the date of taxation. I am informed in that particular case, whether the taxes should be charged to operation or construction is quite a question. If the taxes were assessed the day before operation began, would that be taxes during construction or otherwise? I have made no attempt to estimate it. It is the most complex estimate and again, as I said, it may well reach the point which would make the total of these allowances exceed the overall amount which I have subscribed to and used.

Q. Such a detailed program has been undertaken in the reproduction cost new estimates, has it not?

A. Not by me.

Q. Do you know of one instance where the Hope Natural Gas Company has paid taxes during construction?

A. No.

Q. You did not make a check of the constructed natural gas companies comparable to the Hope system, to determine
679–H what percentage of taxes during construction were actually paid?

A. There are no natural gas systems comparable to the Hope system, that I know of.

Q. There are none with that amount of investment?

A. No—but there are none with the complexity involved in the Hope system.

Q. Did you make any check of actual experience in the payment of taxes during construction?

A. The experience that I have had as to taxes during construction indicates rather less taxes than would be likely assessed in the east. Most of the construction that I have handled has been in the less thickly populated territories, where the tendency to tax property during the construction period is much less than it is in this part of the country.

Q. You have used other persons' knowledge for your basis?

A. No. I find that in my own experience with the smaller taxes that have been paid, the average aggregate amount of these undistributed construction costs is greater than the amount included here including taxes.

Q. Is it not customary to build pipe lines in the summer and the tax dates are usually in the winter, are they not?

A. I think so; yes.

679-I Q. On page 30, for interest during construction, you have used an 8 per cent figure. What rate of interest did you assume in determining your allowance for interest during construction?

A. I assumed no specific rate of interest. The 8 per cent may be, in fact it is the composite result of a great many factors. If as is sometimes assumed, that the average time that money would have to be hired during the construction period was half of the construction period, that would mean that the money would be required for one and a half years, in which case 8 per cent interest during construction would be the result of a rate of about something over 5 per cent.

On the other hand, it is always necessary in constructing property by an independent corporation, without the benefit of a large operator, to borrow a great deal of money in advance of actual construction. In one case with which I am personally familiar, all of the money was made available before a dollar was spent for construction on a project that took 17 months to construct. If that were the case here, the 8 per cent might be for three years' use of the money.

On the other hand, a more common requirement is for from three to six months supply of money as being necessary to sat-

isfy the requirements of the bankers, and to establish
679-J the credit of the company.

That three months added to the one and a half years average time that might be required, would give a total period of 21 months, in which case something like 4½ per cent rate of interest would give you the final result on 8 per cent. Or, the property might be constructed in such a program that parts of it would go into operation a year or so after the beginning of construction, and some parts would be constructed well in advance and carried for considerable periods before they could go into operation, through natural limitations, so that it may be that the average time the money was used during construction would be a year in a project like this, plus the three to six months for the supply of money that it is necessary to have in advance, in which case the period that the money would be used would run from fifteen to eighteen months, in which case again, five or six per cent interest during construction might be required—and might give you the 8 per cent. Or you might be so fortunate as to be able to get your money in such a way that you would only have to hire it a year before you are able to begin operations, and then it would take an eight per cent rate of interest to achieve the eight per cent cost during construction.

All of those factors affect one another, and some of them act in one way and some the other, and the conclusion that
680 I have reached, after consideration of all of these facts, is that on a property such as this to be constructed over a three-year period, the interest during construction may fairly be taken as 8 per cent.

Q. Did you assume that this property would be constructed as a completely independently and publicly financed utility?

A. I did.

* * *

Q. Mr. Rhodes, did you make a study of what the cost of money would be under that assumption?

A. No; I did not.

Q. And I believe you did not state that you assumed any specific rate of interest to be used in the time of interest during construction?

A. That is correct.

Q. Mr. Rhodes, are the overhead percentages on page 30 of Exhibit 16-A the same as are used in the company's original cost exhibit, which I understand will be presented in this case?

A. No; they are not.

Q. Then you did not employ the Hope Company's experience to your estimate?

681 A. No; the Hope Company has the benefit of other experience, for which the Hope Company pays nothing and receives services from others for which Hope pays nothing. An independent company has to pay for all of those services.

Q. The company you have assumed would have no free services?

A. That is correct.

Q. And that is the only explanation for the difference between the overhead percentages you have used and the overhead percentages appearing in the original cost exhibit to be presented?

A. No. In determining the true original cost of the property, the overhead percentages to be used must necessarily be those that are reflected on the company's books. There is no way of reflecting the free services which they get. In the reproduction cost new, I have made my estimates on the assumption that nothing will be obtained free but everything must be paid for at the market price, or its equivalent.

Mr. Rhodes, did you list the free services which Hope Company receives?

A. Well, during this construction period, for instance, when money was required actively in large quanities, the money

682 was advanced as required, and no more than a nominal rate of interest was charged on the advances.

In many cases, Hope constructed its properties out of its own cash. Operators in the natural gas business, the large operators have had experience all over the country, and while the parent company in this case has made charges and does make charges from time to time, to Hope, those charges include bare out of pocket costs that are incurred by the parent companies that are readily discernible, without any charge whatsoever for the knowledge and production power that makes it possible for them to carry out these projects.

I know from experience that these so-called "overhead costs" are less when the owner of the project is a large operator.

Q. Mr. Rhodes, will you please refer to page 34 and 35 of Exhibit 16–A. On page 35, your estimate shows $14,296,600 for undistributed construction costs. Will you state the application of those costs to each of the accounts listed on pages 34 and 35?

A. I made no such application except to the sum total of all of these costs.

Q. On page 34, Mr. Rhodes, account No. 330-1, Natural Gas Producing Lands, did you apply overheads to that?

A. Yes; I have spread the overhead over all of the expenditures because that is the manner in which I have learned
683 what percentages are required to cover all of the expenses of the company.

Q. Account No. 330-4, Rights of Way, did you apply overheads to that?

A. Not specifically, but as a part of the aggregate costs of the property, yes.

Q. Account No. 330-5, Other Land and Land Rights.

A. The same answer.

Q. Account No. 334—Drilling and Cleaning Equipment. Did you apply overheads to that?

A. The same answer.

Q. Account 337—Other Production Equipment?

A. The same answer.

Q. Now, on the Transmission Plant account, 351-12, Land, you made the same allocations?

A. I have made no allocations. I have merely applied the allowance percentage to the sum total of all of the construction. I have made no attempt to spread it over details.

Q. That would be true of account 354-4—Other Transmission System Equipment?

A. That is right.

Q. And under General Plant Jointly Used, on page 35, Account No. 370—Land and Land Rights, the same is true there?

684 A. Yes, sir.

Q. Account No. 372—Office Furniture and Equipment? The same answer?

A. That is right.

Q. And the same for all of those except Account 378—Communication Equipment, listed in the general plant, jointly used?

A. I applied one overall percentage to the sum total of all of the prime construction costs.

Q. Was there a separate calculation made for interest during construction?

A. Not for the purpose of arriving at the sum total. It may have been made in the working papers as an incident but not as a part of getting the final answer.

Q. Mr. Rhodes, on page 35, you captioned the account, General Plant Jointly Used: Does that mean that that plant is used by Hope with other companies?

A. "Jointly used" refers primarily to property that is used jointly with the distribution department.

Q. Does Hope Construction and Refining, River Gas Company and Reserve Gas Company, as of the date of this exhibit, use any of the plant listed under "General Plant Jointly Used?"

A. I don't know the extent to which such use is actually made. I do know, however, that charges are made by Hope to
685 these companies for administrative costs, which cover any use that might be made of the building by those companies.

Q. No segregation of the property used by other companies than Hope appears in your exhibit?

A. No; there is no segregation.

Q. Mr. Rhodes, has the Hope Company charged to expense the items you list on page 30 as overhead?

A. They have in the past failed to charge them to construction, as they should have done, and are now charging them all to construction.

Q. But in the past they have charged those to expense, have they not?

A. In effect; yes, sir.

Q. And then, is there not a duplication in those overheads, if they are placed in new reproduction costs in an estimate that might enter into the determination of a rate base?

A. Not if the rate statement properly reflects the fact.

Q. There will necessarily be an adjustment, will there not?

A. The rate statement must necessarily reflect the charging to construction of these items of expenses.

Q. In your reproduction cost new estimate, Exhibit 16-A
686 to I, inclusive, you reproduced all of the property of the Hope Company?

A. No.

Q. What have you excluded?

A. Property used solely for distribution of gas.

Q. Could you list that property now?

A. I think it is adequately listed in that statement. I have made no separate listing of the property used solely for distribution.

Q. Then your exhibit includes all of the property owned by the Hope Company, other than what you term "used in distribution?"

A. All of the physical properties. It does not include securities and things of that nature that it owns.

Mr. COCKLEY. And it does not include leaseholds?

The WITNESS. No; that is correct.

Mr. COCKLEY. And the coke oven gas plant?

The WITNESS. Furthermore, it does not include working capital in the form of stores, materials and supplies.

By Mr. SPRINGER:

Q. Is all of the property which you classify as natural gas production plant used in rendering services in interstate commerce?

A. To some extent.

687 Q. Do you know the principal use of it?

A. The principal use is for the production of gas for export from the State of West Virginia.

Q. How did you determine that? Did you make a flow study?

A. You do not need to make a flow study. It is perfectly obvious that with so many billions of cubic feet of gas being measured at the Ohio River with the pressures as I know them to be lower on the other side of the river than they are on this side of the river, that that amount of gas went out of the State of West Virginia. I know the same thing is true, that the Brave station for delivery to People's Company, it is fairly obvious from the location of the meters, what gas goes out of the State. It requires no flow study to accomplish that result.

Q. Do you know what property is used in rendering gas service in interstate commerce?

A. Not specifically.

Q. What was the basis for your exclusion of what you term distribution property?

A. Gas distribution property is not used at all in interstate commerce. It is purely within the State of West Virginia.

Q. How did you determine that?

688 A. It is obvious.

Q. Is it?

A. Yes.

The TRIAL EXAMINER. How did you determine what particular properties were used for that purpose? That would not be obvious, would it?

The WITNESS. It is obvious that the distribution mains in the City of Clarksburg are not used in interstate commerce at all.

Similarly the distribution mains in Parkersburg or in Weston or the shops in those particular towns that have to do with the distribution meters—that is property that is solely used in the distribution of gas, and must necessarily be wholly within the State of West Virginia.

Q. Then did your exclusion of what you call local distribution property end at the city limits? How about the feed lines for local distribution property?

A. Those feed lines for local distribution properties may be transmission lines or they may be in fact field lines, depending upon where the gas goes in the line that is delivered to the city gates.

Q. Did you make a study to determine that classification?

A. I made no study to determine what little lines here and there around the system might be solely used to deliver gas to individual consumers.

689 Q. Do you know the use made of the long line from Sheriff Meek's station to Richmond?

A. It is used to transport gas to Richmond.

Q. For local distribution?

A. Yes; that is local distribution.

Q. And is that included or excluded in your reproduction cost estimate?

A. That is included.

Q. Included?

A. It is.

Q. Is any of that used for gas service in interstate commerce?

A. It is impossible to make a segregation except in isolated instances, of property that is used solely for one thing or solely for the other. With very few exceptions, and that is one which you have mentioned, the transmission properties of the company are used jointly to a relative indeterminate extent for the export business and the local business.

Q. Are you prepared, Mr. Rhodes, to state the extent and purpose of the use of each unit of property you have included in your reproduction cost new estimate?

A. In the broad aspects, I know what all of the property is used for. When it comes to the use of some insignificant piece of property, my memory probably would not serve, but

690 I am familiar with the use of the property in this system, and the manner in which it is operated.

Q. Did you make a study or was there a determination of the usefulness of the property you have inventoried given to you as the basis for your estimate?

A. When the field inventories of this property were made by me, I was supplied by my men with a list of items of property concerning which they needed further information as to their use. Those items of property were brought in to me and I considered those items and discussed them with the management of the company. If they convinced me that these items of property were used and useful, I included them in the reproduction cost new, and made no special consideration of them when I determined depreciation. If I disagreed with the management, in reproduction cost new less depreciation, in general I depreciated the reproduction cost to the warehouse value of that equipment, for movement to some other location as it might be needed. There was very little property concerning which there was any question as to its usefulness.

Q. You were convinced that most of the property was used, were you not?

A. I was, and I made other analyses to determine whether it was used.

Q. Could you list the property that you eliminated as
691 not used or useful?

A. The working papers show it. There are a number of items wholly unimportant in the aggregate.

Q. You state on page 11 that the items of property covered by your reproduction cost new estimate has been classified in accordance with the 1939 West Virginia System of accounts. You know that system of accounts has a functional division of utility plant accounts, entitled "Storage Plant" do you not?

A. There are two questions you have asked me. My answer to the first question is that this classification was made by the company.

The second question as to storage plant. I know that there are certain wells of this company that are filled up with gas in the summer and from which gas is withdrawn during the winter. Whether those are properly classed as storage plants or wells, as they are classed in this reproduction cost new, is a matter that have been determined by the management of the company as the proper classification of this character of property.

Q. Then you have reproduced as active producing wells, storage property?

A. I have called as active producing wells these wells which are filled up in the summer and actively drawn
692 upon during the winter. They are not just idle storage wells at all: they are used in very important functions of carrying the peak load such as we had last January, and without which, I think, there would have been a serious shortage of gas.

Q. Without a classification in accordance with the West Virginia System of Accounts?

A. Quite aside from how they might be classed, they are not idle property; they are active property, that are more properly determined as to cost and value as wells than they are as storage holders, which of course they are not.

Q. Do you have in mind the names of the pools which are used as reservoirs?

A. Primarily, the Bridgeport pool is the principal place where gas can be stored in the summer and withdrawn in the winter. I know that other operations are now being carried on experimentally.

Q. Do you know of any other reservoirs used, as of December 31, 1938?

A. I do not recall any other reservoirs in active use for the purpose.

Q. Will you please turn to Exhibit 16-B on page 2. You have summarized there the natural gas producing lands owned by the Hope Natural Gas Company in the amount of $2,275.

A. Yes; I have.

693 Q. And the page following that, are those lands owned in fee or are they interests by lease?

A. I have not examined the deeds, but information was furnished to me that that is land that is actually owned in fee, the use of which is shown on page 3 of Exhibit 16-B.

Q. Does the amount which you have set out opposite each parcel of land represent your estimate of the present market value, or does it represent the actual amount paid by the Hope Company?

A. It represents the original cost before the application of overheads.

Q. And you have captioned it "Value?".

A. Yes.

Q. Is any of the property listed on page 3 used in rendering gas service within the State of West Virginia?

A. It is used jointly with other property in rendering service within and without the state.

Q. On page 6, you show a summary of field and trunk lines, rights of way, in the amount ~~of $772,814~~. On the field trunk lines, you have used a unit cost of $1.75 per rod. On the field gathering lines you have used .95 cents per rod. Do you have your working papers here now?

A. I do not. The working papers that we were bringing here, I might state were for unit cost development. I am
694 not sure that those particular working papers would appear in the unit cost development or in the general working papers, which is a stock as high as this room.

Q. Can you tell us how the unit cost was developed?

A. I can. I had a study made of the cost per rod of all rights of way purchased by the company which still exist. These costs were classified in the records which were available to us as between trunk lines and gathering lines. No attempt was made, on account of the volume of the work involved, to segregate any of these lines as between sizes, that not being necessary, as the basic information was the cost of the rights of way still held.

It was found that in the early period of the development of the company up to about 1910, the costs were low and growing.

From 1910 up to 1930 when the depression struck us, the costs were fairly reasonably uniform, from five year period to five year period, and beginning with the depression, when people were no longer buying rights of way, the cost per rod began to fall quite rapidly. It was in accordance with my own experience in buying some thousands of miles of rights of way that the greater the activity in buying the rights of way—the shorter the time you had to buy 100 miles, for instance; the more
695 you are going to pay for it, and based on those experiences of my own and the company's experiences in the twenty-year period of active development, I arrived at the unit costs separately for field trunk lines and gathering lines, which I rounded out to the nearest five cents per rod, which is as close as it can reasonably be determined.

Q. How much is in that $1.75 unit cost for the rights, and how much for acquisition, and how much for damages?

A. I have made no attempt to break down the total original cost. The original cost working papers which serve as the basis for these figures will disclose all of the information that is available. In the actual purchase of rights of way we do not,

in our own thoughts, distinguish as between the price paid for the right of way and for the damages. The division is often arbitrarily made to suit the ideas of the farmer, or for other reasons, the division might be changed, so we think in considering the purchase of rights of way that it is going to cost is $1.00 a rod or $2.00 or $3.00 a rod as the case may be.

Q. Why should field trunk line unit costs be more than field gathering lines?

A. Because they are bigger lines is the prime reason, and they perform a more important function, which generally leads to the necessity of paying more for the actual rights of way.

696 Q. The rights are identical, aren't they?

A. No. A larger, wider right of way is required for the larger lines.

Q. Does not the Hope Company have a standard right of way form which is used?

A. I assume they do; I do not recall having seen it.

Q. And that would specify a uniform width right of way, I take it?

A. Not necessarily. In buying rights of way, the width is specified to meet the particular needs of the situation.

Q. Will you furnish the detail of the development of the unit cost?

A. To what do you refer?

Q. Of the $1.75.

A. Where the $1.75 came from or the details of my original cost working papers?

Q. If you will just furnish an example of how you built up that unit cost, that will be satisfactory.

A. Well, the unit cost is $1.75 per foot and that is the average price paid by the Company for all of the rights of way purchased from 1910 to 1930, rounded out to the nearest five cents per rod. It is just an actual division of the total dollars by the total rods, determined from the original cost working papers before the overheads were applied.

697 Q. Will your working papers reveal voucher reference and total rods and the money paid by Hope?

A. The voucher reference can be found only in the original cost working papers.

Q. You have listed on page 6 of Part B of Exhibit 16, 87 railroad crossings at a unit cost of $75 each. Does this represent the actual price paid to the railroad company for the privilege of constructing lines under their tracks?

A. The figure of $75 was arrived at by averaging the cost of a considerable number of railroad crossings purchased by the Company, and reflects the actual original cost before overheads. It includes not only what was paid to the railroads, but what other costs might be involved in securing the right to cross the railroads.

Q. Did your analysis cover the same period as the rights of way?

A. We used the same records.

Q. The same period?

A. The information was obtained at the same time that we obtained information as to the cost of rights of way purchased.

Q. Does it cover the same period of time?

A. I do not recall the exact period of time covered by the rights of way, but we studied information as to all of the
698 railroad crossings, of which we were able to find records, in the original cost development.

Q. Will you please turn to page 8. You have listed here a summary of "Other Land and Land Rights, Account No. 330-5," in the amount of $21,045?

A. Yes.

Q. And the details follows?

A. It does.

Q. Does each of the amounts for each of the items listed in this account represent the cost paid by the Hope Company for this property?

A. It represents the original costs before the application of overheads.

Q. And what do you mean by "original cost"?

A. The original cost is determined and reported on in a separate exhibit.

Q. And you have termed it "value" for the purposes of your study?

A. I have considered that original cost as the best available measure of the value of those lands.

Q. Will you refer to page 9, please, and the first item you have listed at the top of page 9 is land used for unloading pipe, valued at $749. Do you know where that tract of land is located?

699 A. Not without reference to maps, other than that it is located in Boone County.

Q. And do you know whether it is currently used?

A. As to whether it is used at the moment, I do not know, but it is used when active construction is taking place in that territory.

Q. Do you know the last time it was used?

A. I have not investigated it.

Q. Did you make a check to determine whether it was used during 1938?

A. I did not make such a check, no.

Q. You accepted the original cost from the books for the purposes of this study?

A. That is correct.

Q. Without making any investigation?

A. The original cost, as determined from the books.

Q. Without making an inspection of the use of the property?

A. I did not inspect the use of each individual piece of land or other property.

Q. You have listed under Harrison County, land used for dwelling sites at McWhorter. Do you know if that property was sold about a year ago?

A. No.

700 Q. And you have listed under Harrison County the use of land for warehouse, amounting to $302.

A. Yes.

Q. And you had that as .292 acres.

A. That is right.

Q. Isn't that approximately $1,035 an acre?

A. Approximately.

Q. Is that not a high price for farm land?

A. It is what the company had to pay for the land.

Q. And you think that is the market value of the land?

A. It is the best evidence of market value. I know from my own experience that when you want a particular piece of land you pay what the farmer wants and not what you think you ought to pay.

Q. There is another item on page 9. You have listed .037 acres comprising an office building—on which an office building at Bridgeport is located, at $1,203. That is approximately $35,000 an acre, isn't it?

A. Approximately.

Q. Do you know where that building is located and the size of it?

A. I don't recall. I know only that that is what the company paid for the land.

Q. Was it purchased from the Bridgeport Gas Company?

701 A. I don't recall the details.

Q. Do you know how much of that property is used in rendering gas service within the State of West Virginia?

A. No.

Q. Do you know that the major use is for local purposes?

A. No.

Q. On page 9 you have listed three pieces of property located at Salem Station. Is that the storage yard for the Salem district?

A. It could be so used. The extent to which it is so used, I do not recall in detail.

Q. Do you know how much use the Hope Construction & Refining Company makes of that storage yard?

A. No.

Q. Do you know that there is a gasoline plant adjacent to that?

A. Yes.

Q. And have you made any allocation between the use of property listed in your inventory by companies other than the Hope Company?

A. No. Any such use that is made of that property and is charged for, is reflected as a reduction in expense in the rate statement.

Q. On page 10, you have listed 19 acres used as Regu-
702 lator Dwelling and Pipe Yard, in the amount of $603?

A. Yes.

Q. Do you know where that property is located?

A. Not specifically.

Q. Are you sure there is such a property?

A. Such a property was so located in the determination of original cost, and it is reflected by deed No. 45,033 in the records of Harrison County.

Q. All through this statement you have accepted the inventory of men who made the original cost statement, is that right?

A. No. As to the things like land, yes, but the inventory used in the original cost statement was used as a basis for the inventory which was priced here. As to operating units of property, the units are identical.

Q. Will you please refer to the third item on page 10 and described as "Storage purpose at former Aizpuru Station." Do you know what that property is used for?

A. Storage purposes.

Q. Do you know what is stored on that land?

A. No; I have not seen it.

Q. Do you know that the property was purchased?

A. The original cost records show that the property was purchased and it cost $202 before the application of overheads.

703 A. Do you know that the property was abandoned?

A. I don't know whether it was abandoned or not.

Q. Would you please define the operating units of property to which you have referred.

A. I will refer to it by example. First, Line H-192 is an operating unit of property. I consider each of the compressor units, for instance, each compressor unit, as an operating unit of property. Each identifiable piece of machinery is an operating unit of the property. Per contra, I do not consider a valve in a pipeline as an operating unit of property. It is a part of a unit. A building is an operating unit, as I use the words.

Q. Thank you. Now, on page 10, will you refer to the item listed as "Warehouse and Office at Gilmer." Do you know what part of that property is used by the Hope Construction & Refining Company?

A. No.

Q. Do you know what part of the property is used in rendering gas service within the State of West Virginia?

A. No.

Q. Well, where could we get the answers to these questions?

A. From the management of the company.

704 Q. From the management?

A. Yes.

Q. There are not any other exhibits prepared by you which may be subsequently presented which show the use of the property which you have listed?

A. I have made no allocations of this property.

Q. Referring to page 10 again and the item "Storage Yard and Barn at Mannington," under Harrison County, do you know what use the Hope Construction & Refining Company makes of that property?

A. I do not.

Q. On page 11, Mr. Rhodes, in the item "Office and Storage Warehouse at Ellenboro" in Ritchie County, was that office in use on December 31, 1938?

A. I was not there on that day, so I cannot state.

Q. You have relief on someone else's statement, haven't you?

A. Of necessity.

Q. And you don't know whether it is there at the present time or not?

A. If I recall correctly, it was there a few years ago when I was in Ellenboro myself, but I did not pay any attention as to whether it was in use or not.

Q. And you don't know how much use is made of that
705 property by the Hope Construction & Refining Company?

A. I do not.

Q. Do you know how much of that property, as of the date of your exhibit, the Reserve Gas Company used?

A. I do not.

Q. You knew that Ellenboro was the central point for the Reserve Gas Company, didn't you?

A. No; I have not considered the Reserve Gas Company at all.

Q. The next items you refer to, Warehouse and Office at Littleton, in Wetzel County—do you know what part of those tracts are used by the Hope Construction & Refining Company?

A. No.

Q. Nor what part is used for the local distribution?

A. No.

Q. Then to summarize this whole account, you are not sure that those items of this account totalling $21,045 should be assessed against the operations of the Hope Natural Gas Company? Well, you have already answered that "No" in detail.

The WITNESS. I do know from my organization that these tracts of lands are owned by the Hope Natural Gas Company, and carried by it in its production land account and is
706 considered by it to be used and useful in its business, which is primarily the export. I do know that when my men went around examining the property they did not call to my attention any of this property as being doubtful as to use. Under those circumstances, I have relied entirely upon the fact that the property is Hope Company property and is used and useful to it in its business.

Q. Then if any errors were made by any of the persons on whom you have relief, it is reflected in your reproduction cost estimate as to the usability and usefulness of the property?

A. There are not necessarily any errors. The management considers the property to be used and useful, and on such insignificant items of property I did not consider it necessary to give

personal attention or give any particular detailed consideration of these small items, that might be left out without any measurable effect on the answer.

Q. But we have only covered one account. These insignificant items may become great in the final answer, may they not? It is conceivable, is it not?

A. It is inconceivable to me, being generally familiar with this property, that there is any considerable amount of money represented in any kind of property but what is fully used and useful.

707 Q. But you have made no allowance for what you call the insignificant portion——

A. (Interrupting.) I say there can be no aggregate amount of insignificant things that is an important factor in the total over-all cost of this property.

The Trial Examiner. Were your men instructed to call to your attention any items where they questioned the allocation of the items already made by the company?

The Witness. In general they were not instructed to question allocations. In some cases we did that, but in general their instructions were only to call attention to any property which they could not see was being used by the company.

The Trial Examiner. So that in general the allocation was made by the company and not made by you or your men?

The Witness. That is so.

By Mr. Springer:

Q. How would you make an allocation in expenses and income relating to the property that is jointly used by Hope Construction & Refining Company and the Hope Natural Gas Company?

A. I have not made any such allocation.

Q. Well, it is necessary, to be consistent, is it not?

A. If charges are made for the use of property or for services performed by Hope for these other affiliated companies, those charges may well cover all of the services performed,

708 even the use of property. It is entirely consistent.

Q. But does it cover the use of property?

A. In the opinion of the management, it covers all of the services performed.

Q. Is there one person in the management of the Hope Natural Gas Company on whom you relied for the statement of whether

items of property were used or useful and the extent used by the Hope Natural Gas Company?

A. These points to which I called attention were generally settled in a conference which was attended by Mr. Tonkin, the president and Mr. Chisler, their treasurer, and sometimes their assistants.

Q. Will you please refer to pages 19 to 24, Field Measuring and Regulating Station Structures, 588 regulator and meter houses, and 1,481 free consumer boxes. Are any of these houses or boxes used in connection with regulating or measuring gas sold to consumers in West Virginia served from the field lines?

A. I have not investigated the detailed locations of these respective regulating structures. Necessarily they regulate the pressure of the gas passing from a high pressure line to a low pressure line, if they are regulators. In most cases they are meter houses.

Q. Will you turn to page 28, please. The first item

709 that you have listed there is the Bridgeport Office, which you show at $3,197?

A. That is right.

Q. You have indicated that this is a type 37 structure?

A. That is right.

Q. Are you able to give us the breakdown of the unit cost of the 23.6 cents per cubic foot?

A. Not as between all of the items entering into the construction of that structure. Type 37 structures are structures as described here in a general way. A group of the Type 37 structures were priced in detail, these structures containing different volumes in cubic feet, and from the average cost, or from the cost per cubic foot of the structures of various sizes, the appropriate price per cubic foot was taken for structures of intermediate sizes. It is well known that a small structure of a given type costs more per cubic foot than a large structure of the same type, and that is reflected in this pricing. The unit cost development shows the full details of how this price per cubic foot was arrived at.

Q. You do not have that unit cost development set of papers with you now?

A. I don't know whether it has arrived yet or not. I do not have it with me now.

710 Q. You could furnish us an example of the composition of that unit cost, couldn't you?

A. I could furnish you with an example showing just how that unit cost was arrived at.

Q. Will you be able to do that after the noon recess?

A. I will have one of my assistants determine that for me.

Q. How did you measure this Bridgeport office building? Did you take the inside or outside measurements?

A. Generally outside measurements are used in the measurement of a structure for determination of its volume.

Q. Were you consistent? Did you use outside measurements all the way through?

A. Outside measurements were generally used. I know of no exception.

Q. Do you know what use is made of the Bridgeport office in rendering gas service within West Virginia?

A. It is used as the office in the Bridgeport production district.

Q. Is it the accounting office for the City of Bridgeport?

A. I don't know whether it is in that building or not.

Q. On page 25, you show a unit cost of $0.214 per cubic foot for item No. 3, Office and Warehouse, Bridgeport, but for the same type of structure it Item No. 1, office at Bridge-
711 port, you have used a unit cost of $0.236. What is the explanation for that difference?

A. I have already explained that the large building costs less per cubic foot than the small building, if they are of the same type.

Q. That will explain any of the differences throughout this study, where structures of the same type but a different cost per cubic foot are shown?

A. That is correct.

Q. Do you know what use the Hope Construction & Refining Company makes of the structures at Bridgeport?

A. Primarily in the operation of the Bridgeport District for the producing of gas.

Q. I said the Hope Construction and Refining Company.

A. I beg your pardon. I don't know what use the Hope Construction Company makes of it.

* * *

713 Q. Will you please refer to page 30, and referring to Miscellaneous Improvements, $2,324, can you list for each structure the miscellaneous improvements, which you have added as an arbitrary 15 per cent to the cost of the structures themselves?

A. The working papers disclose the list of such details which if typed in a case of this kind with respect to each building would take pages of this typed matter for each account.

714 We set up the details which we had available, and to avoid that complication, we found that these particular structures by districts had differing amounts of miscellaneous construction about them, innumerable items, and that as related to this Bridgeport District we found that 15 per cent fairly represented the cost of those miscellaneous items. The details are available in all of the enormous volume of the working papers, if you care to examine them. The amount being small, we preferred to reflect the average practice of the Company in such matters, which, as related to this Bridgeport District is fairly represented by 15 per cent on the cost of the structures. It is an unimportant total amount which I say would have taken pages and pages of detail to price separately.

Q. We are just seeking an example of each one of these. We would not necessarily advocate the placing of the details in the exhibit, but we would like to know just how these are arrived at. Is it a coincidence that on page 30, Miscellaneous Improvements, priced at 15 per cent of the cost of the structures is the same as on page 35, Miscellaneous improvements, priced at 15 per cent of the cost of the structures for the different districts, Buffalo and Bridgeport?

A. We studied the details of these improvements, in order to avoid complicating the record with a lot of unimportant
715 detail, we found that these various districts might be grouped into classes which contained relatively few miscellaneous improvements, and other districts where they contained a considerable amount of miscellaneous improvements. We priced in detail two typical districts of each of the groups. The Buffalo District and the Gilmer District were priced in detail and showed over 17 per cent as to the cost of these miscellaneous improvements. They were put in the 15 per cent class with the other districts, the names of which I do not have available.

We found other districts, like the Calhoun and Mannington Districts had more of these miscellaneous odds and ends which totaled up to about 25 per cent, and we priced Calhoun and Mannington in detail and found that there was more than 25 per cent represented in these structures, and we used 25 per cent for Calhoun and Mannington, and others which we found had that complexity in miscellaneous details. Salem and Shirley were districts where there was a great deal of this detail, and we found that 45 per cent was a figure that fairly represented the cost of these miscellaneous structures in the Salem and Shirley districts, and others that came in that class.

The method that we arrived at for these percentages is as explained by me, and actually reflects the Company's prac-
716 tice in those miscellaneous odds and ends of construction, but which, after all, represents a comparatively small amount of money.

Q. Do you mean 45 per cent of a piece of property would be miscellaneous improvements?

A. Well, in $100,000,000. worth of property, $5,000. worth of property in the Shirley district is an unimportant item, particularly when we used 45 per cent and found it was actually 45.2 per cent.

Q. How much does the miscellaneous improvements amount to in the aggregate of the valuations?

A. I have not figured that out.

Q. It is a substantial amount?

A. No, because these particular accounts to which it applies are quite unimportant accounts in the aggregate.

Q. Is it more than $100,000?

A. I have not the slightest idea how much it is, but I may say that the specific percentages we used were the percentages actually determined from the company's cost of property, and it was done that way to save space and save thousands of dollars involved in this infinite pricing of small items.

* * *

717 Q. Mr. Rhodes, will you define "unit cost?"

A. Unit cost is the cost of providing a unit of the particular thing or commodity involved.

Q. Will you please refer to page 4 of Exhibit 16–C.

A. I have it.

Q. Will you please describe the detail development of unit cost of .771 dollars for $6\frac{5}{8}$-inch nominal diameter, South Penn casing, weight 20 pounds per foot, of which there are 4,553,783 feet in the Hope system?

A. I would be glad to do so, but I must have my working papers from which this determination was made.

The Trial Examiner. Are the working papers here?

The Witness. Yes.

* * *

720 Q. Referring to the question I asked, will you please describe the development of the unit cost for South Penn casing?

A. On page 4 of Part C of Exhibit 16, the unit price is shown for $6\frac{5}{8}$-inch South Penn 20 pound casing as 77.1 cents per foot. That price comes from the working papers, and was arrived at as follows—this particular size and weight of casing is one of the so-called tonnage items upon which the mills quote a lower price than the non-tonnage items, and their price quoted to us was 71.54 cents per foot f. o. b. Pittsburgh. This 71.54 cents per foot is subject to a cash discount of 2 per cent, which brings the net mill price to 70.11 cents per foot. The freight from Pittsburgh to the average West Virginia destination was found to be 22 cents per cwt., which, applied to the 29 pounds per foot results in a freight cost of 4.4 cents per foot, making a total delivered cost of 74.51 cents per foot of pipe delivered.

In order to include all of the costs involved in purchasing and checking and warehousing of a part of this casing that is always necessary, we have added a miscellaneous material cost allowance of 2.61 cents per foot, which is $3\frac{1}{2}$ per cent, bringing the
721 total cost per foot of this casing as found in the well, to 77.12 cents per foot. We eliminated the .02 cents, using the figure of 77.1 cents per foot, as shown on page 4 of Part C of Exhibit 16.

Q. Mr. Rhodes, how did you determine 3.5 per cent for warehousing and miscellaneous?

A. That is a matter of judgment and experience in handling materials of that kind, and I would call attention to the fact that whenever a well is drilled, more casing and tubing is sent out than the actual amount expected to be finally required in the well, because of unknown conditions that are likely to be encountered.

Generally speaking, the material for a well is ordered out at one time and shipped, but 20 to 30 percent and sometimes 40 per cent additional material is taken out of the same local stock to supply this working additional amount. That involves warehousing.

And of course, there is the purchasing, which purchasing is generally requisitioned and specifically for each well, to fit the needs of that well.

As I pointed out yesterday, casing and tubing is not purchased in bulk quantities and drawn upon as is the case of line pipe.

Q. Will you please refer to page 5 of Exhibit 16, Part C. And may I digress for a minute? Does that 3.5 per cent
722 apply to all casing or just to a particular size?

A. We applied 3.5 per cent to all casing and tubing.

Q. Now, on page 5 of Exhibit 16, Part C, Closing-in Equipment, wells with one producing string, the unit cost is $66.73. Will you please explain the development of that unit cost?

A. This item of 2,300 assemblies of closing-in equipment at a unit of $86.73 covers the material only of a bill of materials which was found by analysis of about ten per cent of the wells to be used as the Company's average practice in connecting the tubing from the well to the lead line on the ground. This bill of materials and the unit prices which we have received for these materials—quotations for materials, plus freight, are as follows—there is one 6⅝ by 2 inch by 2 inch by 1 inch casing head that costs $14.11. Approximately one-third of the wells contain two tubing clamps for holding the tubing in place. The cost applicable to one-third of the wells being $3.10 per average well. Similarly on one third of the wells there is a 6⅝-inch casing clamp, one third of the cost being chargeable to each well in the amount of $3.26. There is also a set of anchor rods on the average for each three wells, the price chargeable to each well on the average being 81 cents. There is next one 2 inch
723 extra heavy malleable iron T per well at a cost of 79 cents. Next is two of the one-half inch blower flange per well cost $1.89. Then there is next a 10 inch by one-half inch nipple, costing 49 cents and next a nipple 11 inches long costing 22 cents and another two-inch nipple, 17 cents, a five-inch nipple, 11 cents, a half-inch nipple, six inches long, costing 4 cents. There is a two-inch plug, costing four cents, two half-inch plugs costing 2 cents and then there is a two-inch gate valve, Ludlow No. 9, reflecting average practice, at a cost of $57.38.

There are two of these two-inch gate valves at a total cost of $57.38. There is a half-inch stop valve in the blow-off costing $1.40. The sum total of the purchase price of these materials plus freight is $83.80. There is added $2.93 for purchasing, warehousing and other miscellaneous material costs, bringing the total up to $86.73.

In the working papers, but not available to me here, now, is a sketch which shows the manner in which this bill of materials is connected up between the well and the lead line to the gathering system.

Q. Have you indicated the percentages of the components of the unit cost?

A. I have shown only the dollar amount of the components.

Q. You do not have the percentage of materials?

724 A. This is all materials in this case. The labor is included in the cost of drilling the well and installing the casing and tubing.

The TRIAL EXAMINER. Will you speak a little louder, please, Mr. Springer? We cannot hear you very well.

By Mr. SPRINGER:

Q. What percentage of material overheads are applied on the materials?

A. Miscellaneous material costs are applied in the amount of 3½ per cent as was explained before for purchasing, warehousing and checking receipts, contingencies, and omissions, and so forth.

Q. On page 5 of Exhibit 16, Part C, will you please describe the development of the unit cost for Miscellaneous equipment for wells with one producing string and the unit cost you have used is $121.29.

A. The pricing of the miscellaneous equipment in the well was a complete pricing of approximately ten per cent of the wells in each class of producing strings: The list is several pages long for each district, but it consists of packers of various kinds and shapes, and casing shoes and plugs, and a hundred and one details, most of which are small. These wells having one string that were priced aggregating 228 wells. Every item of mis-
725 cellaneous equipment in those wells was shown by the well record and was priced at an aggregate amount of $27,653.88 including the same 3½ per cent of miscellaneous material costs. And the average cost per well was arrived at by dividing that total by 228 wells which gave the $121.29.

Q. Mr. Rhodes, is there a percentage of material and miscellaneous overheads applied to that miscellaneous equipment unit cost you just spoke about?

A. I don't follow what you mean.

Q. The former accounts for which you described unit costs had a 3.5 per cent figure for material and miscellaneous overheads. Is there such an element in this figure of cost?

A. I have already explained that there was a 3½ per cent allowance for miscellaneous material costs included in this unit cost per well.

Q. Will you please refer to page 6, Exhibit 16, Part C, account No. 332-2, 25 horsepower gas engines, and you have used the unit cost of $2,057.48. Will you describe the development of that?

A. This item of pumping equipment of 25 horsepower gas engines is comprised of the following bill of materials—one 25

horsepower gas engine which we have priced as a Cooper-Bessemer gas engine, at a cost delivered of $1,289.16. There is a ten-inch belt, 90 feet long on the average, at a cost of $77.40. There is a $15 item for T-frame and swivel connection, and an $8.25 item for 7/8 inch wire rope clamp. An $18.80 item for an oil saver with upper and lower stuffing box. There is an item of $556.50 for a 7/8 inch wire cable, on the average, 3,500 feet long. There is an item of $2.70 for a 7/8 inch rope for the wire line. There is an item of $27 for three pumping sinkers 1 3/8 inches in diameter and 15 feet long. There is an item of $2.15 for a valve rod, 7/8ths inches in diameter and 7 feet long. There is an item of $11.90 for a working barrel 2 inches in diameter and about 8 feet long and an item of $8.28 for one set of upper and lower valves, 1 3/4 inches in diameter. The total amount of these items delivered is $2,017.14. To this is added a miscellaneous material cost of 2 per cent which we use for miscellaneous machinery, bringing the total cost to $2,057.48.

Q. Please refer to page 107 of Exhibit 16, Part 1, captioned "Pipe, Steel, Lapweld Screw."

Will you describe the development of the material unit cost of .148 for 2 3/8ths inch O. D., weight 3.75 pounds per foot?

A. The unit cost of 2 3/8ths inch, 3.75 pounds screw-coupled steel pipe, Lapweld, as shown on page 107 of Part C of Exhibit 16, as 14.6 cents per foot. This was arrived at as follows:

727 The manufacturer's quotation f. o. b. mill in the Pittsburgh district was 15 cents per foot, subject to a discount to large purchasers of ten per cent, and two per cent successively. Applying your discount resulted in a per mill price of 13.23 cents per foot. For this class of material, the average freight rate was 22 1/2 cents per 100 pounds, applied to the weight of 3.75 pounds per foot resulted in a freight cost of .084 cents per foot, bringing the total delivered cost of the bare pipe itself as 14.07 cents per foot. To this was added miscellaneous material cost for checking, purchasing, receipting, warehousing and so forth, at 3 1/2 per cent, the amount of which was .0494 per foot, bringing the total cost to 14.56 per foot. This was rounded out to the nearest tenth of a cent as 14.6 cents.

Q. Will you describe the development of the labor unit cost related to that item, .23?

A. In order to make it clear to the engineers for the various Commissions examining these working papers, I have had prepared an explanation of the determination of the unit price of

pipe line construction as related to another size of pipe than two-inch. It is a volume of some fifty pages of tables and charts and explanations that to translate into terms of particular sizes of pipe you asked for, would be quite impossible on the witness stand.

Q. Then you made a unit cost study of one size of pipe
728 as a base, and you have translated that to other sizes of pipe?

A. No; I made the unit cost development for four different sizes and all different kinds of pipe for all different kinds of construction conditions, and this explanation which we prepared and put into the working papers showed how that determination could be applied to a specific size of pipe for specific kinds and conditions that would be encountered on the average in the constructing of any particular kind and size of line. The size chosen was one representing a considerable amount of money, namely 12-inch Dresser-coupled line. I am at a loss to give you readily the development of the cost of the particular size you asked for. It would have to be prepared for me.

Q. Is the development of the unit cost for 12-inch pipe typical of the development for all other sizes?

A. Absolutely.

* * *

730 Q. Have you used different percentages in the development of material unit costs for the various sizes of pipe?

A. In general we have used 3$\frac{1}{2}$ percent on the sizes up to 6$\frac{5}{8}$ inches in diameter, where in general the lines are relatively short and involved a considerable amount of warehousing. The miscellaneous material cost is reduced to 2 percent on lines 8 inches in diameter and over, where in general the length is so great that a considerable portion of the material can be taken directly
731 from the cars to the right of way.

Q. Will you please refer to page 110 of Exhibit 16, part C, your unit cost of $4.35 for Dresser coupling, style 38 for ten-inch, nominal diameter 5/16ths by 7.

A. Without reference to the exact details, I think I can explain the unit cost completely. The $4.35 per coupling is made up of the manufacturer's quotation at the mill of $4.03 f. o. b., Bradford, Pennsylvania. The freight rate in this class of material is 31 cents per cwt. which applied to the average weight of 57 pounds gives a freight rate of 17.7 cents per coupling, making a total delivered cost of $4.207 per coupling. A miscellaneous

material cost which covers also the incomplete inventory in that the number of couplings was calculated at 20-foot spacings on the lines, amounts at $3\frac{1}{2}$ percent to 14.7 cents per coupling, giving a total figure of $4.354 each, which we rounded out to $4.35.

Q. Will you please refer to page 113 of Exhibit 16, Part C and describe the development of the unit cost of $185.14 for drop assembly described as pipe drips, type 34, 10 inch by 33 feet?

A. These type 34 ten-inch pipe drips are made up of a bill of materials of approximately 40 items, and a list of about a
732 dozen items involved in the assembly and installation costs.

The principal items that enter into the construction is the main body of the drip, which is 33 feet of ten-inch pipe at a cost of $40.36. There is one 2-inch gate valve at a cost of $20.91. There are two special castings on the ends of the barrel, one of which costs $17.83 and the other $16.73.

The other items are odds and ends which bring the total specific cost up to $106.61, to which there is added a miscellaneous material cost for purchasing, warehousing and so forth of $3.73, which is $3\frac{1}{2}$ percent, making a total of material cost of $110.34. There are a number of items involved in the assembly such as threading and making up threaded joints of ten-inch, four-inch, two-inch and so forth, making up certain plans, joints and so forth, and handling the things in detail. The detail would show the labor cost directly expended of $33.

In this class of labor, work in assembling drips, we have found that miscellaneous construction costs involving the use of tools and gripping and machine tools in the shop and so forth amount to 50 percent, or $16.50. This drip weighs approximately 1,800 pounds, and for the cost of unloading and hauling it and stringing it and putting it into place in the ground we have used 14.1 cents per pound, which is the average cost of pipe for pipe
733 lines under easy construction conditions, making $25.30 for carrying the assembly drip out from the shop and putting it into place in the ground, making a total installation cost of $74.80. This, added to the total material cost of $110.34 results in a total cost of $185.14.

Q. Is that drip underground?

A. Almost entirely so.

Q. How did you get the inventories for that?

A. The inventory was obtained by examination of the records, drawings as to types of drips, by conversation with the men in the shops who built such drips, and information from the line

walkers, and so forth, and from which we determined the number of each kind and size of drip that are listed in the priced inventories.

Q. You mentioned special tools for the installation of drips. Could you give us an idea of what tools were used?

A. What I mean by special tools is this—these drips are generally made up in the shops, where you have to use pipe cutting and threading tools and machinery and wrenches, and so forth. I did not have in mind that tools for no other purpose were used, but the tool cost and use of shop equipment in this kind of work generally involves miscellaneous costs, including contrac-
734 tors' allowance of 50 per cent on pipe work. That is a common experience of pipe contractors, that to their direct labor cost they must add 50 per cent to give them their true costs, with the normal allowance for profit, and so forth.

Q. Is not welding employed more than the other type you have described?

A. Not on that particular type of drip. That particular drip is made up largely of screw pipe. The item immediately below is shown as welded drips. There is about the same number of welded drips, which are shorter, and are shown to cost less.

Q. Will you please refer to page 111 of Exhibit 16, Part C, under the caption, Terminal Valve Assemblies. There is a unit cost of \$80.52 for valves, gate-flanged, Ludlow, 6-inch (c) of which there are 1117.

A. This unit cost is made up of one valve at a delivered price of \$51.62. There are a pair of companion flanges at a cost of \$4.30 and there is one plain end nipple at a cost of 51 cents, making a total cost of materials delivered of \$56.43, to which is added 3½ per cent or \$1.98, bringing the total material cost to \$58.41. The labor of assembling and installing these valves amounts to \$11.50 for assembling, which comprises making up of threaded threaded joints and nipple and connecting up the flanges to
735 the valve, making one welded joint, and the handling of the material and the assembly in the shop, amounting to \$11.57, to which is added the miscellaneous construction cost as explained of 50 per cent in the amount of \$5.79.

The installation of this valve was figured at 14 cents per pound as in the case of the drip previously described for 339 pounds, making a total cost of unloading it and hauling it out to the field and putting it in the line of \$4.75, making a total cost of assembly and installation of \$22.11, which added to the \$58.41 material cost gives a total of \$80.52.

Q. Do you know the list price and the discount on that valve?

A. I will look that up.

Q. May I ask whether your description of the development of the unit cost for this valve is typical of all the similar classes of property?

A. It is. It consists of the detailed bill of materials that are always installed together, whether it be a valve or a drip or a pair of orifice flanges or what not, there is in the case of each of these items a rather well-standardized assembly of materials, which is priced in detail both as to the materials themselves and as to the cost of threading pipe and installation following a uniform procedure.

736 In the working papers in general, sketches will be found that assist in following the details.

In determining the prices of valves, we found that this particular valve was a Ludlow $5\frac{1}{2}$ valve and was quoted at \$102 per valve, less $23\frac{1}{2}$, 25, 10 and 2 per cent chain discount which applied to the \$102, and gave a net price of \$51.62 which was used in building up the unit costs of the assembly.

Q. Will you turn to page 260 of Exhibit 16, Part D and explain the development of the unit cost per foot of \$1.013 $8\frac{5}{8}$ths inch 29.35 pounds per foot screwcoupled pipe.

A. This pipe is priced at a material cost of \$1.013 per foot, which was arrived at as follows:

The manufacturer's quotation for carload lots was quoted to us as \$1.0512 f. o. b. Pittsburgh. This for the large purchasers was subject to a discount of 10 per cent and 2 per cent, successively, bringing the net price f. o. b. the mill to 92.72 cents per foot.

The freight of $22\frac{1}{2}$ cents per cwt. was applied to 29.35 pounds per foot, resulting in a 6.6 cents per foot freight cost and making a total delivered cost of this pipe of 99.32 cents per foot.

To this price was added miscellaneous material costs in the amount of 2 per cent or 1.99 cents per foot, making a
737 total material cost per foot of pipe in the amount of 1.0131 cents per foot which was rounded out to 1.013 per foot.

Q. Do you have a list price and discount for that type of pipe?

A. We asked the mill to determine for us the price per foot from their standard lists and so-called basic discounts, which they did. We started in each case from the mill quotation per foot.

Q. Do you know whether that included what you call a chain discount which you described for the valves?

A. It was subject to a discount of 10 percent and 2 percent, the 2 percent being for cash and the 10 percent being the large user's discount.

Q. Will you please refer——

Mr. Cockley (interrupting). Before you go ahead, I have just one question to clear the record, if I may?

These pipe prices you have been reading into the record here, Mr. Rhodes, do not reflect the fact which I think you have explained before, that there is an additional ten percent taken later on all of it, isn't there?

The Witness. That is true. These prices are the prices at which we have priced the inventory and which we had carried out, before we were able to reach any conclusion as to whether
738 or not an additional ten percent or other discount could
be obtained. We don't know now that it can be obtained on any and all sizes. The conclusion I reached was that in the aggregate, a discount of ten percent additional could be obtained, which is the equivalent of 10, 10 and 2 percent discount from the mill price.

Mr. Cockley. If you were building up the unit costs then to reflect all of the discounts you have taken, you would have your ten percent, ten percent and two percent right in here, would you not, instead of having 10 percent and two percent, and then 10 percent more?

The Witness. It might have been done that way.

Mr. Cockley. As it is, you have 10 percent and 2 percent here, and then another 10 percent later on on all of it?

The Witness. That is correct.

By Mr. Springer:

Q. Mr. Rhodes, will you please refer to page 261 of Exhibit 16, part D and explain the development of the unit cost for material of 2.338 for 20-inch pipe of 65.70 pounds per foot. You have a total cost of $3,692,251.

A. That total cost is for labor as well as material.

Q. I am just seeking the development of the unit costs for material.

A. The mill price of 20-inch, 65.70 pounds per foot,
739 lapweld plain end field pipe is 2.4309 per foot. Applying
the large user's discount of 10 percent and the cash dis-

count of 2 percent results in reducing the net mill price to 2.1441 per foot. The freight cost of 22½ cents per cwt. is 0.1478 per foot, making a total delivered cost of the pipe itself 2.2919 per foot.

Adding to this a miscellaneous material cost of 2 percent, which is 4.58 cents, this brings the total material cost per foot of pipe in the ground to 2.3377 per foot. This was rounded out to 2.338 per foot.

Q. Now, please refer to page 262 of Exhibit 16, Part D, and describe the development of the unit cost per foot for material amounting to 1.710 for 12¾ outside diameter inches of welded pipe at 49.56 per foot?

A. This pipe in question, is plain end seamless pipe which is made up into a welded line, the pipe itself being 12¾ inches outside diameter, and weighing 49.56 pounds per foot. The quoted mill price of this pipe is $1.7745 per foot to which, applying the discounts of 10 percent and 2 percent reduces the price to $1.5651 per foot.

Freight at 22½ cents per cwt. is 0.1115 per foot, making a total delivered cost of $1.6766 per foot. Miscellaneous material cost of 2 percent is added, which brings the total material
740 cost of the pipe in the ground to $1.7101 per foot, which was rounded out to $1.710 per foot.

* * *

Q. Mr. Rhodes, is that the pipe which was used in the pipe line from the Cornwell Station to Hastings?

A. I believe so; yes.

Q. Will you please refer to page 67 of Exhibit 16, Part E, under Compressor Station Equipment, Cabot Compressor Station, main Units.

Will you explain the development of the unit costs for 470 horsepower gas engine compressor units?

A. This 470 horsepower engine, which is typical of a considerable number owned by the Company was built by the National Transit Pump & Machine Company. It is a four-cycle type of engine, horizontal single tandem, double cylinders, twenty inches in diameter by thirty-six inch stroke.

The National Transit Company quoted us a price for this engine which we rejected as not being typical of the prices at which we could buy the equivalent engines from other manufacturers. The lowest price we were able to get for such
741 engines quite in accord with our own experience was obtained from the Cooper Bassemer Manufacturing Com-

pany at $23,000, net, f. o. b. shipping point. This engine weighs approximately 153,000 pounds.

We added to this price the average freight to destination which was determined by applying to this weight of each of the engines, the freight to the respective destinations, there being almost forty such units. This freight averaged $530.91 per engine. We then added miscellaneous construction costs for purchasing, checking, receipt of engine, and so forth of $235.31, which is 1 per cent, bringing the total cost f. o. b. average, railroad siding, $23,766.22. The three engines at the unit price would cost $71,299.

Mr. Milde. You said miscellaneous construction cost?

The Witness. I should have said miscellaneous material cost.

By Mr. Springer:

Q. Will you describe the method by which you determined the installation cost?

A. The estimates of the cost of erecting equipment in compressor stations was based on detailed estimates of typical units of such equipment, the estimates themselves being based on experience in erecting such equipment.

For instance, engines of this general description are shipped knocked-down. They are so big and so heavy that
742 they would occupy some three or four freight cars, and they
are knocked down into many pieces that have to be handled separately and then assembled when they are being erected on foundations.

That class of engines we call Class 1. We have had considerable experience and the Company has had considerable experience which we drew on by consultation, in the erection on the one hand of the twin tandem engines of such type, of which the Company has a few, and the single tandem engines, the twin tandem engines of which we have detailed costs and weigh 192 tons, and the single tandem engines of which we had erection costs weigh 85 tons.

This detailed unit cost development shows that in unloading these engines from the railroad cars, 583 man-hours would be required in riggers, riggers' helpers and common labor.

There is about half common labor at 45 cents an hour and about half of riggers and riggers' helpers at 85 cents and 55 cents an hour respectively. This cost is $324.55 bare labor costs for the 192 ton double unit and $161.50 for the 290 hours of labor of the 85 ton single tandem unit.

After unloading these engines from the cars, they have to be skidded on blocks by the use of jacks and chain and
743 falls and block and tackle, and tractors, and by a great deal of brute strength and awkwardness, because some of the parts weigh 25 to 30 tons apiece, they are erected and assembled on the foundations.

There are included in this assembly on the foundations the cost of setting the foundation bolts which have to be set in advance of the erection, paying the cost of handling and assembling and erecting these engines, which requires 3,378 man-hours of labor for the large engine at a cost of $2,233.33, and 1,715 man-hours at a cost of $1,129.25 for the single engine.

This labor is predominently in man-hours, mechanics and mechanics' helpers, which accounts for 1,418 man-hours for the large engine and 710 man-hours for the small engine.

The mechanics are rated at 85 cents an hour and the mechanics' helpers at 55, the same as the riggers and riggers' helpers.

The next most important element in the labor is 951 man hours common labor in the big engine and 500 in the small engine which, on account of the fact that so many men are required, a certain amount of what we call first class common labor is used, which brings up the average rate per hour to 47½ cents.

There is an electrician involved for 56 hours with his
744 labor for connecting up the ignition, the pipe fitters for connecting up the oil pipe, and so forth. All of these are shown item by item and aggregating the number of dollars shown.

This total unloading and erecting cost then amounts to $2,557.88 for the large engine and $1,290.75 for the smaller engine, these being the amounts of money that would be paid to labor.

The insurance on labor in this class of work was quoted to us by the insurance agencies at 7.274 per cent of the payroll, which brought the total cost of labor plus insurance to $2,743.94 for the large engine and $1,384.64 for the smaller engine.

These are the direct labor costs. We have found from experience that a great deal of money is spent in connection with handling this kind of equipment in skids and blockings and special equipment, so that it is necessary to add to the direct labor cost 80 per cent to cover these miscellaneous costs and the contractors' allowance.

That brings the total costs of erecting the engine to $4,939.09 for the 192 ton unit and $2,492.35 for the 85 ton unit.

In the erection of all such equipment, it is necessary to have
in charge in each station a manufacturer's erection
745 engineer, the current charges for which, including expenses,
are $25 a day. On the average, such a man spends 30 days per unit on the 192 ton units and 18 days on the 85 ton units. This charge we have taken as being paid directly by the company and not by the contractor, so that the total cost to the company of installing these 192 ton units was $5,689.09 and for the 85 ton units $2,942.35.

That was the first step.

None of these engines was exactly the way that the engines in which we had experience and were able to estimate definitely the cost so we interpolated between these costs for intermediate weight engines.

For instance, the particular engine that we had reference to weighed, with its compressor excluded, 88.85 tons. In interpolating between these costs for the equipment of 85 tons or 170,000 pounds for the small one, and 192 tons or 384,000 pounds, we proportionately interpreted those figures and found that the engines weighing from 176,000 to 180,000 pounds, within which range weight the 88.58 tons comes, we found a cost of $3,050 as the total cost of erecting such equipment.

This applied to three units, gives the $9,150.

Q. You spoke of a contractor's allowance. Will you give us the percentage?

746 A. The contractor's allowance is included in the 80 percent out of the total of 180 percent of labor as the price. 65 percent of the 180 percent is miscellaneous construction cost and 15 percent out of the 180 is the contractor's allowance. That 15 percent is measured in terms of 100 percent labor cost, rather than the 165 percent cost to the contractor, so that it represents about 8 percent of the contractor's own costs in the allowance for his profits, overhead, and so forth.

Q. On page 67 of Exhibit 16 Part E, will you continue your description of unit costs for compressor station units, by explaining the development of unit costs for compressor cylinders, Ingersoll-Rand?

A. Again, we found that the quotations by Ingersoll-Rand for these large compressor cylinders, were not reliable, they're not making very many such cylinders in the market today, so in pricing the Ingersoll-Rand compressor cylinders, we used the prices per cylinder of the whole range of cylinders quoted by Cooper-

Bessemer and by Worthington, which were consistent one with the other, in some particular sizes Worthington being lower, and the other sizes Cooper-Bessemer was the lower.

In each case we took Cooper-Bessemer or Worthington, whichever was the lower, and in this case the price per cylinder
747 of 34 inch diameter by 36 inch stroke, the first of the two descriptions on page 67 was $5,500 f. o. b. factory. We took the Worthington price. The Cooper-Bessemer price, for instance, was $6,042 for the same size of cylinder, the difference in the prices generally coming from the different point where they changed the frame or casting to accommodate the bore.

Starting with the $5,500 we added the average freight, $108.68, bringing the total price per cylinder delivered to the nearest railroad station $5,608.68. To this was added the miscellaneous material cost of 1 percent of $56.09, making a total cost per cylinder of $5,664.77, which applied to the three cylinders gives $16,994 shown on page 67.

Q. Will you please turn to page 90 of Exhibit 16, Part E, captioned Compressor Station Foundations, and explain the development of the unit cost per cubic yard of $18 for the 8 main units at the Cabot Compressor Station?

A. In determining the cost of foundations, for the main units, which are generally fairly large and fairly simple foundations, we determined the total cost per yard for a number of foundations aggregating over 5,000 cubic yards of concrete. We found that there was 9,071 cubic yards of excavation required, which was priced at $1.10 per cubic yard of excavation.
748 3,697 of those cubic yards of this excavation was required to be back-filled around the excavation at a cost of 84 cents per yard.

There was 5,329 yards of concrete at a cost of $10.21 per yard, and there was 56,000 square feet of rather complicated forms at 45 cents per square foot. There was 28,238 pounds of reinforced steel at 4.8 cents per pound.

Aggregating the dollar cost of all of these foundations was $94,055, which divided by the 5,329 cubic yards of concrete, gave an average cost of $17.65.

We used $18.00.

Q. Do you know what the cost of the aggregate is which is included in the $18?

A. The aggregate in this concrete, comprising sand and gravel, totalled $3.38 per cubic yard as bare cost. In other words, what the contractor would pay the vendor of that sand and gravel.

Q. Do you know what price per sack the cement was?

A. The cement was $2.41 per barrel.

Q. And the price per ton of sand?

A. We have it here as the price per yard.

Q. All right.

A. $2.60. And the gravel, $2.55.

Q. Now, Mr. Rhodes, will you please refer to page 137 of
749 Exhibit 16, Part E.

The TRIAL EXAMINER. Is there any contractor's allowance in that?

The WITNESS. Yes. After the labor is added, there is a 22 percent to cover the contractor's miscellaneous costs.

The TRIAL EXAMINER. That is included in the $17.65?

The WITNESS. That is correct.

By Mr. SPRINGER:

Q. Referring to page 137 of Exhibit 16, Part E, boiler plant, Cornwell Compressor Station, will you describe the development of the unit cost for boilers, Babcock & Willcox 500 horsepower sterling boilers.

A. These boiler units in the Cornwell compressor station comprise five five-hundred horsepower Sterling boilers, which the Babcock & Willcox Company quoted to us erected for $61,300 to which there are added 2 percent miscellaneous costs, making the total for the boilers themselves $62,526. These boilers all contained Diamond soot-blowers at a quoted cost of $5,800 erected, to which was added the 2 percent miscellaneous material cost, bringing the total for the soot-blowers to $5,916.

The superheaters were also quoted erected by the Babcock & Willcox Company at $13,445, which after adding the 2 percent miscellaneous costs, brings the total to $13,714.

750 There are stacks and bridgings at a quoted price of $17,430 which, after adding the 2 per cent miscellaneous costs became $17,778.60.

The brickwork for the boiler setting was quoted at $33,500 to which $670 was added for miscellaneous material costs, bringing the total to $34,170.

These five items add up to $34,170.

Q. Just what would those miscellaneous costs cover that you repeat very frequently in unit cost development?

A. They cover the costs involved in the purchase of the equipment and in the checking of its receipt, the payment of invoices,

the miscellaneous odds and ends of equipment which have been installed by the company since the original installation by Babcock & Willcox, who had only the bill of materials as originally sold. That generally describes the miscellaneous costs as applied to the boilers.

Q. Don't you include that same type of costs in your general administrative overheads?

A. No; those general administrative overheads are all in addition to the costs involved in the purchase and checking the receipt of materials. All the general administrative forces have to do with that are to pay the bill when it is approve if and when sent to them.

Q. Is it not general practice to put the purchase cost
751 into the general administrative overhead?

A. They can be so placed but I have not done it in this set-up, because I wanted all of the costs of construction to include the same thing, whether it is by contractor or by the Company.

Q. Do you know what the treatment was in the Cleveland rate case for this same item?

A. I don't recall.

Q. Will you please turn to page 139 of Exhibit 16, Part E. Cornwell Compressor Station Boiler Plant and Coal and Ash Handling Equipment and describe the development of the unit cost totalling $20,258?

A. This equipment described here was furnished by the Link Belt Company, and they quoted us for this equipment $19,286 f. o. b. Philadelphia, giving us a weight of 115,000 pounds.

The freight rate on this class of equipment was 50 cents per 100 pounds, which added to the factory cost gave $19,861.

Again the 2 per cent miscellaneous material cost was added in the amount of $397, bringing the total cost up to $20,258.

Q. Do you know that the Hope Natural Gas Company no longer burns coal?

A. That is a temporary situation. They must necessarily be equipped to burn coal in their stations, as the natural
752 gas supply may become short during the winter periods, or conditions may gradually change in the availability of gas.

Q. Do you know the last time that this coal and ash handling equipment at the Cornwell Compressor Station was used?

A. No, I do not.

Q. Will you please refer to page 156 of Exhibit 16, Part F, Compressor Plant, Hastings, No. 1 Compressor Station, and de-

scribe the development of the unit cost for yard-lines, 3,043 feet of 16-inch pipe at $4.24 per foot?

A. This cost of $4.24 per foot of 16-inch pipe in the yard lines, is based on pipe at a unit cost per foot that has been used in pricing pipe lines for this same 16-inch pipe, namely $2.153 per foot. That was before the allowance for the miscellaneous costs, and we found on analyzing those lines in the yard lines in a number of stations, taking into account the different sizes of lines that in the case of the 16-inch yard line, there were fittings in the run of the line which brought the total cost f. o. b. railroad to $2.799 per foot, on the average for 16-inch lines. This material being in miscellaneous lots, by that I mean that not very much of it is in existence in any one station, and consisting of a number of parts of various lengths, we treated it as small line pipe and added the 3½ per cent miscellaneous material costs instead
753 of the 2 per cent which would be done if it were laid in a main line.

The cost of installing this 16-inch pipe was based on the cost of installing such size under the conditions in West Virginia, determined by the method which is explained in the document which is Exhibit 17, with allowance for the fact that a considerable additional work is involved in the installing of fittings, as compared with pipe. This installation cost was $1.34 per foot, bringing the total cost including installation to $4.2377 per foot, which was rounded out to $4.24 per foot.

Q. Is that unit cost development which you have described typical of the prices applied to all lines?

A. That is correct, except that we find for the smaller sizes a greater additional cost because of fittings, there being a greater proportionate amount of fittings in the small lines than in the big ones, otherwise the method of determining the unit costs was the same for all sizes of line from the smallest to the largest.

Q. What was the additional amount for the two-inch pipe?

A. Proportionately we found by analyzing a considerable footage of the two inch pipe that the fittings in the two-inch lines cost almost as much as the pipe itself did. These
754 prices from the smallest up to five inches in diameter include in a general way considerable footage in the various stations, and we found on the average that the fittings cost 98 per cent of the price of the pipe, whereas from the six to fourteen inch, inclusive, the fittings only cost 34 per cent of the cost of the pipe, and the sixteen and eighteen, 30 per cent, and the 20

and 24 inch 20 per cent. Those figures are arrived at, as I say, by pricing a considerable footage of lines to avoid having to type in a complete unit cost development for a long list of bills of materials which would add nothing to the accuracy of the whole result.

Q. Will you now refer again to page 18 of Exhibit 16, Part E. For the Bee Compressor Station, you priced four main units of foundations, is that correct?

A. That is correct.

Q. On page 7 of the same volume, there appears to be only two main units in the Bee Compressor Station.

A. That is correct.

Q. What use is being made of the two idle foundations?

A. No use is being made of them, and that fact is reflected in the reproduction cost new less depreciation of that station.

Q. You priced everything not used or useful and then depreciated it?

755 A. If it was still carried in the original cost determination, it was included in the reproduction cost new, so that they could be properly accounted for, but in determining the reproduction cost new less depreciation, the cost of those foundations is wiped out.

Q. If the structure housing this compressor station and only two units being used was twice as large as required for those two units, did you also consider that in your reproduction cost new less depreciation?

A. I reflected the partial use of that structure by eliminating the cost of that which could be dispensed with and still allow sufficient operating space for the two remaining units.

Q. That situation is true in many places throughout the Hope system. Have you been consistent in your treatment of them?

A. I have tried to be, and so far as I know I have been completely consistent.

Q. Did you explain, Mr. Rhodes, why the foundations which do not have units upon them in the Bee Compressor station were included in your reproduction cost new estimates, and why you treated them as a part of the depreciation relating to the station in your reproduction cost new, in your depreciation estimates?

756 A. We tried by every possible means to make the inventory of reproduction cost new correspond with the inventory of original cost, so that the two would be properly compar-

able, and for that reason we left in the reproduction cost new certain buildings, certain foundations and certain equipment which we treated specially under depreciation to reflect the fact that the building was no longer useful or the foundation was no longer useful or the equipment was merely being held there as though in a warehouse.

Q. Then your original cost and your reproduction cost really are not comparable, are they?

A. Oh yes; because in the original cost, the entire building and all of the foundations and all of the equipment were included.

Q. The original cost does not reflect the retirement of the two foundations that are not being used?

A. No, it does not.

Q. But you do reflect that in you reproduction cost new less depreciation?

A. I take out the nonuseful features.

Q. I was just wondering why you did not eliminate it from the inventory in the first place.

A. It was desired by the management to continue these items in the original cost and to have the reproduction
757 tion cost new correspond to the inventory and with original cost.

Q. Did you personally make an inspection of the property of your reproduction cost new less depreciation estimate to determine what was not used or useful?

A. I did not personally inspect the property for that purpose, but an inspection of the property was made by my staff to determine to what extent that was so.

Q. Will you please refer to page 25 of Exhibit 16, Part G, Indian Creek Compressor Station equipment, and explain the development of the unit cost for the generator five kilowatt DC, 125 volts at $275?

A. This motor was a motor that the Triumph Electric Company stated they were not now making and suggested that we use the General Electric Company's price for a motor of like description, which was $300 from which we took a quoted discount of 14 per cent, getting a net price of $258 f. o. b. factory. The pulley and base were added, bringing the total cost up to $270 to which, adding a 2 per cent miscellaneous material cost brought the total up to $275.44 or $275 as we used it.

Q. Now, Mr. Rhodes, will you please refer to page 95 of Exhibit 16, Part B, producing gas wells and well construction, and describe the development of the average unit cost per foot of $2.43.

758 A. I have already described the method generally, but there exists in the working papers a memorandum of the procedure followed, which corresponds to that in the determination of the cost of laying pipe. This goes into full detail, and there are fifteen or twenty pages. This is available to you for such use as you may desire.

* * *

759 Q. Now, Mr. Rhodes, will you please refer to page 7 of Exhibit 16, Part I, and describe the development of the unit costs of the general office buildings in Clarksburg, West Virginia at $0.457 per cubic foot.

A. This office building as it existed at December 31, 1938, was measured up in detail, and quantities of all kinds of work entering into the construction of the building were determined, starting with excavation and going to the buzzer system.

There are two whole pages of items and another half a page making approximately 100 items, but in pricing these items in detail, it was found that the total cost of constructing that
760 building as of the period of 1938 and 1939 was $115,762.29.

The volume of the building was 253,368 cubic feet, which gave the cost per cubic foot of 0.457 per cubic foot.

That method of pricing in an inventory was used to avoid the extreme detail of the large number of items entering into its construction.

Q. Is there a contractor's allowance in that estimate?

A. The same as in all building construction. For the contractors' miscellaneous material and labor costs and the contractors' allowance there is a total of 22 percent of which approximately 10 percent may be considered as a contractors' allowance, of which, however, he receives only about 8 percent or 9 percent on his costs.

Q. Will you compare that cost per cubic foot of $0.457 with the cost per cubic foot of the one-story wood frame building on page 10 at $0.909?

A. One is a building of 253,000 cubic feet and the other is a very small building, equipped with toilet facilities.

Q. The foreproof building is priced at a smaller cost per cubic foot on page 7 than the wood frame sheet metal building with a

corrugated roof and concrete floor on page 10. Almost twice a much per cubic foot.

A. That is due to its extremely small size. A building fiv foot six by thirteen feet and an average height of eigh
761 feet, a little building of 587 cubic feeet, there is no possibl comparison of cost in a building of that size directly wit a building of 253,368 cubic feet. It is about the size of th smallest room in the big building.

The Trial Examiner. Does that include the cost of the toile facilities too?

The Witness. Yes, but it is a building made solely for tha purpose.

The Trial Examiner. The cost of the facilities would be wort more than the cost of the building?

The Witness. It may well be, in a building of that size, yes sir.

Mr. Springer. Mr. Examiner, that completes our cross examin tion on reproduction costs.

* * *

2923 **TESTIMONY OF F. P. C. WITNESS PACE ON ACTUAL LEGITIMATE COST OF HOPE'S PLANT**

Transcript pages 2923–2925, 2961–2963

(Omitted in Pace's Testimony Printed in Supplement to Brief of Petitioner)

* * *

Cross-examination by Mr. Cockley:

Q. Let us take the case of the property acquired by Hope as utility property from those particular companies; tell me what use you made in your original cost study of those original records; you can start with any one of the three.

A. In connection with the Clarksburg acquisition, there is a positive statement attached to that voucher that the amounts that you recorded in the Hope books were the exact amounts as shown in plant account on the Clarksburg Light and Heat Com-
2924 pany's books and that the same amounts and reserves are reflected in the Hope Company's books in the same amounts.

Q. Is that what you meant by our estimate of original cost; is that what you meant by the Hope's estimate of original cost at the time of acquisition, that statement on that voucher?

A. No; I would not consider that an estimate; that is cost obtainable from the prior utility's books.

Q. What did you find besides that that you would consider an estimate of original cost by the Hope Company at the time it purchased that property?

A. That particular property?

Q. That is what we are talking about; you picked it.

A. I do not know they made any estimates at all in connection with the Clarksburg acquisition; I do not think they did.

Q. How did you treat that Clarksburg acquisition? The plant account was set up as \$2,000,000, we will say, and the depreciation reserve at \$1,000,000, and they paid \$1,000,000 for it; is that right?

A. Yes.

Q. What figure do you show in your original cost exhibit for that property on that assumption; what figure would you show in your exhibit included in the \$51,000,000?

2925 A. We show the amount as original cost that was shown on the Clarksburg Light & Heat books.

Q. You would set it up here as $2,000,000 on the proposal I have made?

A. Yes.

Q. And you later put in a depreciation reserve of $1,000,000 as of that date?

A. Yes, sir.

Q. And you would have $1,000,000 net?

A. That is right.

Q. And that is the price that the Hope Company paid for it when it acquired it, is it not?

A. Yes, sir.

Q. And that is what you have got in your figures?

A. That is right.

* * *

2961 Redirect examination by Mr. Springer:

Q. Now in the case of Mr. Antonelli's estimates in his claimed original cost, why didn't you accept those?

Mr. Cockley. You mean the part of it that was estimated, are you limiting your question to that?

* * *

The Witness. I could see no reason why Mr. Antonelli would be in any better position to estimate those costs than the person that estimated them at the time the property was acquired. I think if it were permitted to re-estimate the same property from time to time, that probably there would be no end to what finally might get on the books.

By Mr. Springer:

Q. You mentioned the possibility of an improper distribution of expenditures explaining some of the differences in the figures which Mr. Antonelli claims for various accounts, and figures which you found to be the valid original cost. Will you elucidate that?

A. Well, there was in the direct labor and material costs which were claimed by the company to have not been capitalized. I don't think they even claim it to be expense; and they also
2962 claim it not in plant accounts. Of course if it can't be identified either in expense or in plant, I wouldn't know just exactly where to look for it.

Q. You mean you doubt that such an expenditure had been made?

A. There was some of the direct labor and material cost that was supported, but an examination of those costs indicate that it was more or less of an attempt to re-account for past costs, and by that I mean go back and change maintenance costs to plant accounts; and for that reason I disallowed that.

In fact I think, with reference to a number of those items, if I had found them in plant accounts to start with I would have thrown them out; but I considered them properly maintenance charges.

Q. And you also found unrecorded retirements, didn't you?

A. Yes.

Q. Now where you found overheads charged to expense, and there was an attempt to capitalize those retroactively in Mr. Antonelli's study, you disallowed those on an accounting principle, didn't you?

A. Yes sir; it wasn't merely the method by which they were computed, it was altogether the accounting principle.

Q. Well, to sum up your ascertainment of the valid original cost as of the end of 1938, you have not disallowed any supported asset accounts in the Hope Company's original cost,
2963 have you?

Mr. Cockley. I object to that: there are thousands and thousands of items.

Trial Examiner. Well, what difference does that make if he is familiar enough with them to say whether he has or whether he has not.

Mr. Cockley. All right.

The Witness. We haven't disallowed one dollar, that I know of, from their plant accounts; in fact I think we were very liberal.

By Mr. Springer:

Q. In fact you added $1,400,000 to the plant costs, did you not?

A. We added that much to what was reflected on the books.

Trial Examiner. You don't mean that those amounts were unsupported?

The Witness. No, sir; that amount was supported.

* * *

1547 TESTIMONY OF HOPE WITNESS CHISLER ON HOPE'S ACCOUNTING PRACTICES.

Transcript pages 1547–1560

* * *

JOSEPH C. CHISLER, previously sworn, resumed his testimony:

Examination by Mr. SPRINGER:

Q. You are the vice president and the chief accounting
1548 officer of the Hope Company, are you not?

A. Yes; sir.

Q. How long have you been the chief accounting officer of the Hope Natural Gas Company?

A. Since July 1, 1933.

Q. What was your accounting responsibility before that time?

A. I was assistant treasurer, in charge of all accounting work.

Q. Who was the chief accounting officer of the Hope Natural Gas Company before you?

A. Mr. R. D. Beardsley was the treasurer.

Q. Do you adopt the accounting methods employed in Exhibit 20 by Mr. Antonelli?

Mr. COCKLEY: I do not think that is a proper question to put to this witness—whether he adopts all of the accounting methods. If he wants to ask him about some particular one, why not do that?

By Mr. SPRINGER:

Q. Did you not advise Mr. Antonelli on various accounting phases of his exhibit, and do you disagree with any of the accounting principles that he said he used?

Mr. MILDE. There are two questions there. May we have one at a time?

1549 The WITNESS. I advised Mr. Antonelli on the determination, or assisted, in the determination of actual original cost. We determined the interpretation of original cost as defined in the West Virginia Classification of Accounts of 1913—our interpretation.

By Mr. SPRINGER:

Q. And he followed your advice, did he not?

A. Ove a period of two years, of course, we had numerous conferences, and we consulted with our attorneys and my assistants, and Mr. Antonelli also had recommendations, but the

whole plan and procedure was worked out together and the decisions made.

Q. Then you are in agreement with the accounting methods employed by Mr. Antonelli in Exhibit 20, are you not?

A. I am in agreement with the original cost that has been determined and shown in Exhibit 20, that that is the true original cost, according to our interpretation.

Q. Do you disagree with the accounting methods employed in Exhibit 20?

A. I think, Mr. Springer, what is presented in Exhibit 20—what Mr. Antonelli has presented—is the original cost as defined in this Classification of Accounts prepared in accordance with our interpretation, and that is what he has presented here.

1550 Q. Well, then you agree with the method employed by Mr. Antonelli?

A. I agree with the method.

Q. Now, with respect to all the labor costs other than well construction, they were capitalized up to 1918 by the Hope Company, and then expensed to 1923, and then capitalized after that, is that so?

A. There was a portion that has been expensed, from 1918 to 1923—certain portions of the construction.

Q. I asked you for the labor costs other than well construction?

A. That is true, but I stated that all labor costs other than construction were not expensed. That is what I wanted to imply.

Q. For what period?

A. From 1918 to 1923. In other words, there was certain construction work on lines and compressing stations where the labor cost was charged to expense, but not on all construction.

Mr. Cockley. That is in the period from 1918 to 1923?

The Witness. 1918 to 1923.

By Mr. Springer:

Q. Then from 1918 to 1923, construction labor other than well construction, was expensed, and after that time

1551 capitalized, is that right?

A. If I can make myself clear—our construction work for the period 1918 to 1923, a portion of it, the labor costs—this is other than wells—was expensed. A portion of it was capitalized.

Q. You are familiar with the rate case involving the Hope Company before the West Virginia Public Service Commission in 1921, are you not?

A. I might have been at that time; I have not looked at it for years.

Q. Do you know what the Hope Company contended for the treatment of well construction costs in the 1921 rate case?

Mr. COCKLEY. I object to that. What conceivable difference does it make what in a local rate case, down here, they contended for in 1921?

Mr. SPRINGER. I think it is highly important, Mr. Examiner, that we determine what claims were made covering the same items, now that they are attempted to be capitalized in this case.

Mr. COCKLEY. Well, we submit that here is a rate case down here which was obviously a local rate case in West Virginia, and involved distribution rates in West Virginia. The export rate, the wholesale rate, has never been under determina-
1552 tion. Are you going into that rate case in 1921, and then if the Hope Company had another one in 1927, are you going to go into what they claimed then, and then if we go ahead up to the rate case that we had in Ohio, see what they claimed in 1931, and 1932, and in the 1937 case, and I forgot one in Ohio in 1921, and see what was claimed then? Where does it all get us? Either we are entitled to include these things in the original cost or we are not; and what was claimed at one time or another is not going to make a particle of difference, and it is a perfect waste of time.

Mr. SPRINGER. Mr. Examiner, I think this will show the Company's stand and past accounting practices, where it is claimed as operating expense items which now are attempted to be capitalized, and I think that you and the Commission are entitled to know the past accounting practices and the exercise of managerial discretion in accounting for these things. All I am asking the chief accounting officer of the Hope Company is whether or not he knows the past claims of the Hope Company in a rate case.

The TRIAL EXAMINER. After all of this discussion, he may know what you mean. The objection is overruled.

Mr. COCKLEY. Exception.

The WITNESS. I know what he means, but I don't recall what treatment we gave on the construction costs in that rate case.

By Mr. SPRINGER:

1553 Q. Well, Mr. Chisler, are you aware that the West Virginia Public Service Commission stated in that 1921 rate case that well construction costs was a proper operating expense

for the purposes of that case, and that is reported in P. U. R. 1921 E., page 418?

A. I have not reviewed that and I am not just familiar with what treatment might have been given to well construction costs in 1921.

Q. The financial statements that your company has made in the past have been issued in the expectation that they would be relied upon as being an accurate statement of your accounting policies, isn't that so?

A. They have reflected our accounting, yes. They are prepared monthly, and reflect the conditions and the principles that are followed.

Q. And you consider your books of account to be important sources for the basis of your financial statements, don't you?

A. I do.

Q. Taking the $17,000,000 that, but for a small percentage, has been charged to operating expenses now capitalized in Mr. Antonelli's exhibit, when your company decided to expense those amounts, it did so in the exercise of managerial discretion, did it not?

A. Well, we followed the Code of Accounts, or we exer-
1554 cised that discretion:

Q. Sometimes you had an option to expense or capitalize well construction costs, for instances, didn't you?

A. That is true.

Q. And you made an election and expensed those costs?

A. That is true.

Q. Has the Hope Company always had a competent accounting officer?

A. Well, they have had several of them, and in my opinion, they have been competent; otherwise I do not think they would last very long.

Q. Then the Hope Company's past accounting policies have been the result of competent and well informed deliberate accounting advice, isn't that so?

Mr. Cockley. I object to that as calling for a half a dozen conclusions. The facts have been developed and they are perfectly obvious as to how these things were charged, and that is all that is important in this record. I object to it as wholly incompetent, immaterial and irrelevant.

Mr. Springer. I think it is important, Mr. Examiner, that we determine whether or not these representations made through

their financial statements, were well advised, well informed and deliberate.

Mr. Cockley. Of course there were not any representa-
1555 tions made through financial statements, to anybody. Wholly aside from that, this question calls for about three or four different conclusions and is wholly immaterial.

The Trial Examiner. I think the witness is able to take care of himself and answer the question.

* * *

The Witness. I would say that is true.

By Mr. Springer:

Q. Was not the expensing of well construction costs the accounting practice at the time it was employed by the Hope Company in its accounting?

A. The well construction costs, from the beginning of business up to December 31, 1922, was charged to operating expense.

Q. And that was an accepted practice at that time, was it not?

A. That is the accounting principles that we followed, and I think generally in the oil business, and so on, that those construction costs were charged to expense.

Q. As even today some oil companies charge well construction to expense?

A. That may be so, but I don't know. January 1st, 1923, when the new Code of Accounts came in, we started to capitalize
1556 it.

Q. Were the Hope Company's books periodically audited by a certified public accountant?

A. We had our own internal auditing department for quite a number of years. It is only since recently that we have had outside Certified Public Accountants, Price, Waterhouse, I think since the Social Security came in, which made it mandatory at that time.

Q. Was there not a periodic audit by Certified Public Accountants before that time?

A. No, not to my recollection.

Q. Has your company in the past made under oath financial statements based upon your policy of accounting, to regulatory States and Federal taxing bodies?

A. We did.

Q. What effect did the noncapitalization of well construction costs have upon the Hope Company's financial statements to

stockholders, regulatory bodies, Federal and State taxing authorities, and institutions issuing financial publications?

A. Well, of course, the stockholder is the Standard Oil of New Jersey; that is the one stockholder. I don't know that had this $11,000,000 of well construction costs been capitalized,
1557 how large a depreciation allowance there would have been. I don't know what the net effect would have been.

Q. Was not the effect of noncapitalization of well construction costs to reflect less profit because that was charged to operating expense?

A. Well, the difference between the depreciation and the full amount of the well construction costs would probably reflect some change in the net income.

Q. What was that?

A. I say, the difference between the amount capitalized and the full 100 per cent of the well construction costs would have some effect on the results.

Q. I believe you stated that the Hope Company practice of noncapitalization of well construction costs would likewise affect the stockholding company, the Standard Oil Company of New Jersey?

Mr. MILDE. We object to that. That is not a fair statement of anything the witness said.

* * *

The WITNESS. Would affect them in what way?

My Mr. SPRINGER:

Q. Just as you have said. It would be a statement showing less profit if the well construction were expensed.

1558 A. It might be less loss or increased loss.

Q. Doesn't that make some difference in the Standard Oil Company of New Jersey's consolidated financial statement? It is a chain without a broken link, isn't it?

* * *

The WITNESS. Well, of course, the Hope Company happens to be one small company out of a large number in the Standard Oil of New Jersey. I don't know that it would greatly distort their picture.

By Mr. SPRINGER:

Q. You mean that $11,000,000 would not distort the financial statement? That is a sizeable sum, isn't it, Mr. Chisler?

484808—42——12

A. Over a period from 1898 down to 1922, it is an accumulated sum.

Q. Are you aware of the Federal Income Tax regulations, which require the Hope Company to elect to treat well construction costs either as operating expenses or as a capital item?

A. Yes; I am familiar with that.

Q. That is Article 223 of Regulation 69, Income Tax Act of 1926, United States Internal Revenue. What election did the Hope Company make in connection with well construction costs for income tax determination?

1559 A. I would not be positive, but I think it treated that as an expense item.

Q. You made a consistent practice of doing that?

A. That is my recollection.

Q. During the period when the Hope Company began capitalizing well construction costs, did the Company's financial statements show the full effect of a change in accounting policy?

A. In effect, we continued to charge that to expense—the well construction costs. There was a reserve set up of the full 100 percent which was charged to depreciation expense or amortization expense, so in effect, as far as the net income is concerned, there would be no change.

Q. In effect, the capitalization of well construction costs was nullified by concurrent additional accounting?

A. That was the effect. I mean we amortized it fully 100 percent each year.

Q. How long did that practice continue?

A. That continued after 1923, to the time when we had this depreciation adjustment which was January 1st, 1927.

Q. Do you mean that after 1923 your company practiced the capitalization of well construction costs, with concurrent additional accounting entries, which nullified that change

1560 in accounting, and that continued from 1923 to 1927?

A. I would not say it nullified it. We capitalized it and amortized it fully down through 1933.

Q. How long did the policy continue after 1923 of capitalizing well construction costs where the net effect was not to change the net income of the company?

A. Beginning with 1934, January 1st, the well constructing costs were placed on a depletion basis, and on the amount of gas withdrawn, rather than on this amortization basis, and as far as the financial statements are concerned, that change-over would

be reflected, as I recall, as of January 1st, 1934. This adjustment was made, of course, and would appear in your surplus adjustment which was referred to before. That would not affect any of the current year's financial statements down through.

Q. Did the Hope Company in its history make any other substantial changes in its accounting principles and methods?

A. I don't recall of any offhand.

* * *

1171 **TESTIMONY OF HOPE WITNESS ANTONELLI ON ESTIMATED "ORIGINAL COST" OF HOPE'S PLANT**

Transcript pages 1171–1271, 1325–1353, 5068–5104, 5107–5196, 5572–5658, 6250–6345

* * *

Cross-examination by Mr. Springer:

Q. Will you please turn to page 5 of Exhibit 20. How did you determine what property to exclude, which you term "distribution and General, used solely for the distribution of gas in West Virginia?"

A. The properties to exclude for distribution, used solely for distributing gas in West Virginia were indicated to me by the company as such properties, and they were not included in this particular report.

* * *

1172 Q. And that was consistent with the property listed by Mr. Rhodes in his reproduction cost new estimate?

A. Yes, sir.

Q. Do you know what features of general property you did exclude as being used solely for the distribution of gas in West Virginia?

A. I believe some of the transportation and equipment was excluded, and there might be some others, that I could not tell you offhand.

Q. Were there any buildings?

A. Of course, the buildings in the various city plants were not included in our original cost estimates.

Q. What is the basis for your determination of items formerly charged to operating expenses and which should be re-stated as capital items, in your Exhibit 20?

A. Because, in order to determine the complete original cost, it is necessary to include all costs, regardless of how they were shown on the company's books.

Q. And what authority have you for that statement?

A. I was engaged to determine the complete original cost of Hope properties, and in order to determine the complete
1173 original cost it was necessary to include all elements of cost irrespective of how they were shown on the books of the Company.

Q. Are you familiar with the instructions in the Uniform System of Accounts for Gas Utilities, prescribed by West Virginia in 1939, Exhibit 13 in this case?

A. Yes, I am.

Q. Will you please turn to page 20, Account No. 100-1, "Utility Plant in Service" which reads:

"This account shall include the original cost of utility plant, included in accounts 301 to 390, together with the amounts recorded in accounts 391 and 392, owned and used by the Utility in its utility operations, including such property owned by the Utility but held by nominees."

Then will you please refer to page 48 under "Instructions—Utility Plant Accounts," and paragraph B reads:

"The cost to the Utility of its utility plant shall be ascertained by analysis of the Utility's records. In ascertaining the cost, it is not intended that any correction need be made for depreciation, depletion or amortization, applicable to operating units or systems previously acquired, whether or not such depreciation, depletion or amortization was recorded in the books of the accounting utility. It is likewise not intended that adjust-
1174 ments shall be made to record in utility plant accounts amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of management as exercised under such uniform system of accounts."

Does not that instruction forbid you to re-state as you have in exhibit 20, items which were formerly charged to operating expenses, that you have now capitalized?

A. We determined the original cost based on the accounting principle of the uniform accounts prescribed by the West Virginia Commission. And according to the definition given on page 5 for original cost, original cost as it applies to gas utilities, it means the cost of such properties to the person first devoting it to public service. Also on page 48, it states in paragraph C that if the original cost is not obtainable, it could be estimated.

It seems to me that paragraph B on page 48 is inconsistent with what the definition of original cost is stated to be and what is said in the paragraph C and we determined the original cost, the complete original cost, as I said, irrespective of the charge on the Company's books.

Q. Then your determination renders meaningless the specific part of Instruction B for Utility Plant Accounts, does it not?

A. Well, I think these instructions are inconsistent.
1175 I think there must be some mistake in stating that here.
In one place they tell us to determine the original cost,

and if you don't know the original cost, it can be estimated. In another place you are told to record the cost as determined from the Company's books. It could not be original cost because, for instance, if we take the account of equipment or take the account of wells, the original cost of a well will be the cost of the equipment, plus the construction cost for sinking it. If we follow these instructions here, we go to the books and obtain only the cost of the equipment, because the cost of the construction has been expensed. I do not see how the cost of the equipment is the complete original cost of the well.

Q. You did not choose to follow the specific instruction for utility plant accounts, then?

A. No, sir; we followed the accounting principles.

Q. Are accounting principles supposed to be consistent? Is not one of the virtues of accounting claimed to be consistency?

A. I don't understand your question; I don't know what you mean.

Q. Is it consistent to charge to operating expenses and make financial reports based upon that discretion of the management——

1176 A. (Interrupting.) No, but ——

Q. (Continuing.) And then later restate those same amounts as capital items?

A. I was not doing an accounting job. I was determining the original cost of the property existing on December 31, 1938. I was not interested in bookkeeping or accounting practices of the companies at all. My job was to determine the original cost of the Hope properties.

Q. But you said you did it in compliance with the Uniform System of Accounts for Gas Utilities, prescribed by West Virginia.

A. I followed the accounting principles, yes.

Q. You followed accounting principles, but you did not do an accounting job?

A. No, sir. My job was to determine the correct original cost of these properties.

Q. Now, on page 6, you say that there was no system of accounts prescribed for the Hope Company prior to 1922. Does that mean that the Hope Company was not subject to regulation prior to 1922?

A. The Public Service Commission of West Virginia was organized in 1913 or 1914, and I believe that all of the companies

were required to furnish annual reports, because I have seen such reports. That is prior to 1922, so judging from that, I
1177 assume that they have been under regulation, but I am not not quite sure.

Q. On page 6 you state that the Hope Company did not capitalize well construction costs. How much have you restated in Exhibit 20 for that item?

A. The amount?

Q. Yes.

A. $41,279,554.08.

Q. And that amount was formerly charged to operating expenses, was it not, by Hope?

A. Yes, sir.

Q. Was the Hope Company involved in a rate case before 1922, do you know?

A. No, I don't know.

Q. And you don't know what the Hope Company contended for the treatment of well construction costs in its 1921 rate case then?

A. No, sir.

Q. And you are not aware of the fact that the West Virginia Public Service Commission stated in the 1921 Hope Rate Case that well construction costs was a proper operating expense for the purposes of that case?

A. No, sir.

Q. You stated that the Hope Company did not capitalize well construction costs. Was that an accounting discretion
1178 exercised by the management?

A. It must have been an accounting practice. In those days, I suppose that was the proper way to do it.

Q. Do you know who made the decision?

A. No, sir; I do not.

Q. Do you know that there are periods when non-capitalization of well-construction costs was practiced by Hope and when it was discontinued?

A. It was discontinued in 1923.

Q. And practiced from 1891 up to that time?

A. Yes, sir.

Q. And was the non-capitalization of well-construction costs the accepted accounting practice at the time it was employed by the Hope Company?

A. I believe that generally is correct.

Q. Some oil companies practice non-capitalization of well construction costs today, do they not?

A. That is my understanding, yes, sir.

Q. The Hope Company's decision not to capitalize well construction costs would affect its financial statements, would it not?

A. Yes.

Q. In effect, it would reflect less profit because the well construction was charged to operating expense?

1179 A. I would not know that.

Q. Doesn't it follow?

A. I don't know.

* * *

Q. Do you know what effect non-capitalization of well-construction costs would have upon the Hope Company's financial statements to the stockholders, regulatory bodies, and Federal and State taxing authorities and financial publications?

A. No, sir.

Q. The Hope Company's practice of non-capitalization of well-construction costs, you say, would affect its financial statements. It would likewise affect the consolidated statement of the Standard Oil Company of New Jersey, would it not?

A. I don't know. I have not given any thought to that.

Q. Are you familiar with the Federal Income Tax regulations, which require the Hope Company's officers to elect to

1180 treat well-construction costs either as operating expenses or as capital items?

A. No, sir; I am not.

Q. Do you know what election the Hope Company did make in connection with Well Construction costs for income tax determination?

A. No, sir.

Q. During the period when the Hope Company began capitalizing well-construction costs, did the Company's financial statements show the full effect of the changed accounting policy?

A. I don't know.

Q. Did you analyze the Hope Company's books from 1891 to the present time?

A. I analyzed the vouchers pertaining to the existing properties at December 31, 1938. As I said before, we had an inventory of all of the units in the Hope system, and my job was to determine the original cost, and I went to the proper vouchers and the proper company's books to determine the actual original cost. I was not interested in any of the company's bookkeep-

ing practices, as far as financial statements and so on were concerned.

* * *

1181 By Mr. Springer:

Q. Then you did not make a complete examination of the books throughout the history of the Company?

A. I did, as far as the existing property is concerned: yes, sir.

Q. Did you consider all of the entries that related to the property in existence?

A. I considered all the entries that related to the costs of the properties in existence.

Q. But you do not know what changes were made by the Hope Company in its accounting procedure at the time it started to capitalize well-construction costs?

A. I was not interested in the accounting procedures of the company's. I determined the original cost of existing properties from the company's records.

* * *

Q. Mr. Antonelli, who made the decision that well-construction costs which were charged to operating expenses should be restated as capital items, in your Exhibit 20?

A. Well, I was asked to determine the real original costs of the properties, and I did so by going to the company
1182 records and finding the real costs of these properties. Nobody made the decision, as far as I was concerned, or as far as that is concerned. I had the general instructions to determine the complete original costs.

Q. Can we say in summary then, Mr. Antonelli, that you restated more than $11,000,000 for well-construction costs, which were charged to operating expenses, and you have placed them in capital now, without consideration to the specific instructions in the West Virginia System of Accounts?

A. Well, the only thing I did, as I said before, was that I determined the original costs, the complete original costs.

Q. On page 48 of the System of Accounts, you have rendered meaningless the instruction B, the last sentence: "It is likewise not intended that adjustments shall be made to record in utility plant accounts, amounts previously charged to operating expenses in accordance with the Uniform System of Accounts in

effect at the time or in accordance with the discretion of management and as exercised under such uniform system of accounts."

A. Well, if I had followed these instructions, I could not determine the real original costs.

Q. Why?

A. It just could not be done. The books do not record
1183 the complete costs. I had to go to other sources to get that cost.

* * *

Q. Was the effect of the Hope Company capitalizing the well-construction costs modified or nullified by concurrent additional accounting entries?

A. I don't understand the question.

Q. Well, is it not true that when a well construction job was closed, and charged to fixed capital, an additional entry was
1184 made charging operating expenses and crediting reserve for depreciation and depletion with an amount equal to the cost of well construction capitalized?

A. I did not pay attention at all to the Company's procedure, as I said before. My job was to determine original cost.

Q. Do you know whether the Hope Company, in its history, made any substantial changes in its accounting principles and methods other than those required by the various systems of accounts prescribed by the West Virginia Public Service Commission?

A. No; I don't know offhand.

Q. Were any changes in the Hope accounting principles and methods made without competent advice and authorization from responsible officers?

A. I don't know.

Q. Did not your analysis of the books reveal who the accounting officer was each year, and whether or not there had been determinations of principle and method by the management?

A. I was determining original cost. This was a job of going to the company's records and finding out how much should be charged as original cost, and that is all.

Q. Is the determination of original cost an exact science?

A. If all of the data and information is available, it would be an exact science.

1185 Q. In this case all of the data and information were not available, is not that so?

A. They were all available to the extent of 94 per cent. We estimated about 6 per cent.

Q. How many dollars does the 6 per cent amount to?

A. $4,000,000 or $5,000,000.

Q. Four or five million dollars?

A. Yes.

Q. Do you know whether the Hope Company has ever reclassified its property accounts before?

A. Do you mean since this Commission came into existence—since the West Virginia Commission came into existence?

Q. Well, no. From the beginning of the Hope Company's history.

A. Yes. In the beginning the Company had its property classified as perhaps ten accounts. Material prices were in one account, the labor was in another account, the compressing station, structures and equipment, were in the other accounts. Then in 1923, of course—No. It was reclassified once more, I believe, in 1913. The properties were reclassified as to production, transmission and distribution properties. Then they were reclassified in 1923 in accordance with the new classification of accounts of the West Virginia Public Service Commission. Then, there

1186 were some changes made in the classification of accounts in 1932—just minor changes. I believe the drilling and cleaning account was changed from "Production" to "General."

Q. What is the difference between the former reclassifications and your present one in Exhibit 20—fundamentally?

A. There are reclassifications as to the items of property and the general accounts have been reclassified considerably. In the prior accounts, the overheads, the so-called undistributed construction items, were all grouped together under several accounts. They were not distributed. In this case here, in this new system of accounts, they are all distributed with the items of equipment.

Q. Well, Mr. Antonelli, did the reclassification by the Hope Company in 1913 result in an increase in the total book cost.

A. I don't know. I could not answer that question.

Q. Did the reclassification in 1923 increase the total book cost?

A. I would like to make a correction. They reclassified the properties in 1920 and not in 1923. It did not increase it; no, sir.

Q. In 1932, did the reclassification result in an increase of the total book cost?

A. I don't think so.

1187 Q. Did the 1920 reclassification result in a decrease in the total book cost?

A. No, sir.

Q. Are the company records available to show the basis for the determinations made in the previous classifications?

A. It might be possible to obtain the information, but it would be a tremendous job and would take several years to do it, because properties have been abandoned and changed. It would be a very difficult job.

Q. Are the working papers available, underlying the former reclassifications?

A. You would have to go to the vouchers and other records to obtain the information. It would be a very difficult job to do.

Q. Did you have access to the working papers underlying the reclassifications formerly made?

A. I used them indirectly through vouchers. For instance, the reclassification made in 1920 was done through a memorandum voucher known as M-699, and we worked through that voucher considerably, to determine our original costs.

Q. Were there working papers supporting the memorandum vouchers?

A. Yes, there were a lot of vouchers, which all go back to this M-699 voucher.

1188 Q. Did you make use of those?

A. Yes, sir.

Q. Did you have available working papers summarizing all of the supporting vouchers in the former reclassification?

A. No, sir; I went direct to the original vouchers.

Q. Were those working papers available?

A. I did not need those papers to get my original costs.

Q. Well, they are in existence then, and available to the Commission's staff, I presume?

A. I presume they are. I don't know.

Q. You know they are in existence?

A. There are such papers; yes, sir.

Q. On page 8 of your exhibit, the caption, "Inventory of the Company's Properties as of December 31, 1938,—" did you make a check to determine whether the items of property listed in your inventory are used and useful in the Hope Company's Export business?

A. No, sir; I did not.

Q. Did you rely on someone else's determination?

A. The inventory as used in the original cost is the inventory of the properties existing at December 31, 1938, and recorded on

the Company's books, and I was instructed by the Company to include all properties so recorded, unless the Company advised me otherwise.

1189 Q. Who gave you the instruction?

A. The management of the Company.

Q. Would that be one person or several?

A. Mr. Chisler, who is the Vice President and Treasurer of the Company, and Mr. Cross, one of his assistants.

Q. In Paragraph B on Page 8, you say that your book inventory was checked account by account against all other available records. Could you tell us the general office and field office records which you used to check the book inventory account by account?

A. In the general office, we checked all of the records available in the Geological Department, such as well pockets and well cards. Information in the engineering department, such as surveys, line maps, and line pockets, and information in the district offices such as line pockets and all miscellaneous records.

Q. Did you make a check on the working papers under the previous re-classifications?

A. No, it was not necessary.

Q. Have all of those records been made available to the Commission's staff?

A. Yes, sir.

Q. On page 9, Mr. Antonelli, you state that substantially all visible property was verified by field inspection as to its
1190 existence and description. What dollar per cent does the visible property bear to the total property in the Hope system?

* * *

The Witness. The invisible properties consist of gas wells and pipe lines. They are the large items, and that represents about 7[illegible] per cent of the total properties.

My Mr. Springer:

Q. You would say then that approximately 25 per cent of the property could be visually inspected?

A. Yes; the visible property, the visible properties.

Q. How much money is that?

A. About $55,000,000 original cost.

Q. And $55,000,000 could not be seen?

A. Could not be seen.

1191 Q. On page 9, you state that buried pipe was checked in the field by sampling method as to its existence and description. Would you describe the sampling method and the extent used?

A. This sampling method was done during the time the pipe was examined for condition, and as I understand it, the pipe was uncovered at equal intervals and examined.

Q. Just as Mr. Rhodes described?

A. Yes, sir.

Q. You relied on that?

A. Yes, sir.

Q. Would that furnish information as to the description of the pipe?

A. It will give the size of the pipe.

Q. And the length, of course, could not be determined by the sampling method?

A. No; we did not attempt to determine the length by the sampling method, no.

Q. I thought your statement was that you checked for description as well as existence?

A. Yes.

Q. And the length and size would be a description?

A. Through the sampling method we were able to determine the kind of pipe, whether it was a steel pipe, or a plain-end
1192 pipe, or what. In most of the cases—not in each case.

Q. The sampling method would not give you the complete answer, would it?

A. No, sir.

Q. Now, on page 9, you state that the book inventory was corrected to reflect only property in existence at December 31, 1938. Will you state the number of actual adjustments made to the book inventory by reason of the sampling method used for buried pipe, and the total effect in terms of dollars from those adjustments?

A. I could not do that. That is quite a job. I could prepare a statement.

* * *

Q. Were there numerous adjustments, Mr. Antonelli?

A. Yes, sir; there were. Some of them very minor, but there were adjustments.

Q. Both for inclusion and exclusion of pipe?

A. Yes, sir.

Q. Could you estimate the amount of money involved?

A. No, sir; I could not.

Q. On page 9, you state that in connection with the field
1193 field check of compressor station structures and equipment, you say use was made of an agreed inventory used in 1931 in the East Ohio-Cleveland Rate Case before the Ohio Commission. Do you know who made the 1931 inventory?

A. That inventory was prepared by Ford, Bacon & Davis.

Q. Was it a complete physical inventory?

A. It was a complete physical inventory, as of December 31, 1931.

Q. Can a physical inventory be made of the Hope system?

A. I am referring now to compressing stations, structures and equipment.

* * *

Q. On page 9, do you have the schedules which reflect additions and retirements to 1938, which have been applied to the 1931 inventory?

A. Yes, I have, and a copy of those schedules was furnished to the Federal Power Commission.

Q. To whom?

A. Mr. Lyons.

Q. On page 9 again, Mr. Antonelli, you state that additions and betterments from June 30th, 1931 to December 31, 1938, occurred in the field. How was that field check accom-
1194 plished?

A. By visiting each station and checking each item individually. The items that were not found there were retired, and other items that were found and not recorded in the inventory——

Q. (Interrupting.) Do you mean that you can go out in the field and look at property and tell whether there is an addition or a retirement involved?

A. By "addition" and "retirement" I mean we added additional items and retired others.

Q. Were you able to distinguish from former additions and former retirements?

A. I don't understand what you mean by "former additions and former retirements."

Q. Did you say you looked at the property in the field?

A. Yes, sir. All of the visible property was examined.

Q. Well then, how can you distinguish your additions and retirements from ones that were formerly made?

A. I don't understand what you have in mind. We had an inventory as of June 30th, 1931. This inventory was taken out in the field and checked, item by item. If we did not find the items in the field as recorded in our inventory, of course, we retired that item.

The TRIAL EXAMINER. You had an inventory of each
1195 compressor station, you mean?

The WITNESS. Yes, sir; of each compressor station. If we found an item in the field that was not recorded on our inventory, it was added.

Mr. MILDE. By "retired" you do not mean retired in an accounting sense, do you? I think that is where the difficulty is.

The WITNESS. No, sir; I mean it was eliminated from our inventory.

The TRIAL EXAMINER. You mean it was not there when you went back?

The WITNESS. That is right. It was not there when we went back in 1938 and 1939. It was there in 1931.

Mr. COCKLEY. Then you took it off your list?

The WITNESS. Yes; we took it off the list.

Mr. COCKLEY. And if you found something there that was not on your list, you put it on?

The WITNESS. Yes; that is the way we did it.

Mr. COCKLEY. And of course, you could not put anything on but a bare description of the equipment?

The WITNESS. That is all that was necessary, to put the description on so that we could identify it from the Company's books and vouchers.

By Mr. SPRINGER:

1196 Q. Did you reconcile that information with the book cost then?

A. Yes, sir; at the time that we went in the field, in addition to the 1931 inventory, we also had with us a transcript of the inventory as shown on the Company's books, and those two inventories were reconciled.

Q. You mean they were reconciled as to the existence of the units of property, or the dollar basis?

A. As to the existence of the units of property.

Q. Should there not be a reconciliation of the related dollars to the units of property added or retired?

A. The books do not reflect the complete original costs. It records only the book costs. We did not pay much attention to the dollars as shown on the books because they were not complete.

Q. You had a total dollar amount and you fitted what you call a check inventory into it without relating dollars to the units of property, is that right?

A. No, we prepared an inventory, and then we went to the Company's records, not only the Company's ledgers, but all of the Company's records, and we went back into the vouchers and found the actual costs of the amount of money that the Company actually spent to construct these properties.

Q. Are the Company's records adequate to enable you
1197 to determine the total cost to the company of compressor
stations?

A. Yes, sir.

Q. Will you please refer to the last paragraph on page 9. What is the original source of the inventory of the pipe lines you mention there?

A. The inventory of the pipe lines was a transcription from the company ledgers checked against the information and data shown in the engineering department, and what is shown in the various districts, line pockets, and so on, and also survey maps and survey plats. Of course, they were spot-checked out in the field to determine their accuracy.

Q. Who determined when it was necessary to confirm the accuracy of the inventory data on hand?

A. I did. I made sure that the inventory was as accurate as humanly possible.

Q. Would you please describe the extent and nature of the new surveys which were made to confirm the accuracy of the pipeline inventories?

A. We prepared a list of all lines, line by line, and our first job was to go out in the field in each district and have all of the line-walkers come in, and we discussed the existence of these
lines. That was our first step. For instance, I would
1198 ask a man, "Do you know anything about a certain line?"
and he would say "Yes, this line is still there." And I would ask him, "How long is the line?" and he will say, "1,000 feet." If he said it was four miles, I knew that there was something wrong. So that was our first check. Then a discrepancy of that kind was checked in the field by actual measures.

The next check was by setting out on parallel columns the inventory lines as shown by the engineering department and as shown by the treasurer's department, and the discrepancies were noted, and if it could not be explained, they were checked out in the field by actual measurements.

We also checked the inventories with the surveys made by the engineering department and line plats. When a line is laid, there is a plat prepared showing the length of the line and the kind of the line, the beginning point and the end.

Q. And how can you make an actual measurement of a pipe line?

A. By measuring the line with a chain.

Q. With a chain on top of the ground?

A. Yes.

Q. Do you penetrate?

A. No; you just follow the line.

Q. Could you tell us how many miles were measured that way?

1199 A. I am not quite sure, but I think it was about ten or fifteen per cent.

Q. Of the 4,000 miles?

A. Yes, sir. It was not necessary to measure all of the lines where we were certain that the inventory was correct. We measured all of the lines on which we were in doubt.

Q. And you say that that was about 15 per cent of the 4,000 miles of pipe lines?

A. Offhand I would say that is correct. I would have to refer to my papers to find the correct amount.

* * *

Q. Could you have the papers here late today and give us the correct answer on that?

A. Yes, sir.

Q. Will you please turn to page 10 of Exhibit 20 and referring to paragraph D, were you able to identify in the transcription of investment ledgers, the specific units of physical property shown in the new inventories made in the field as of December 31, 1938?

A. In most cases, we did. In some of the general accounts, particularly in the shop equipment, we were unable
1200 to identify the items found in the field with the items shown on the company's ledgers, but of course that is only a very small portion of the properties involved.

Q. In the case of pipe and fittings at a compressor station, if you could not find it at the time of the field check, did you put it under construction labor and class it as supplies expended during construction?

* * *

The WITNESS. I will have to refer to my papers to answer that question.

By Mr. SPRINGER:

Q. And on page 10 again, what is the dollar amount of your adjustments, in connection with the property no longer in existence which was still carried on the company's books?

A. Again I will have to refer to my papers, Mr. Springer; I could not answer that question offhand.

Q. You would not know the dollar amount of your adjustments in connection with property found by field check which had not been recorded on the books?

A. No, sir, that would be a big job to determine.

Q. Was it a large amount?

A. I would not say so; no, sir.

* * *

1201 Q. The Trial Examiner and the Federal Power Commission would not be expected to get the answer that way, would they?

A. Of course, in order to get the answer to these questions, it would require me to go over 70,000 pages and summarize them. It is a tremendous job, because they are shown by units of property. They are all there and all explained, and the reasons why the adjustments were made.

Q. You did not make any summaries for your own information?

A. I have the adjustments shown on this statement B.

Q. You do not know how much property you added to that inventory which was in existence which did not appear on the Company's books?

A. Not offhand; no, sir.

Q. Your working papers won't show that in summary form?

1202 A. Yes, sir; Statement C gives the various kinds of adjustments, but not as specifically as you would like to have them.

* * *

1205 Q. Mr. Antonelli, referring again to the dollar amount
1206 of your adjustments in connection with property no longer in existence which was still carried on the company's books, do you consider that important information?

A. No, sir.

Q. Now, in considering the dollar amount of your adjustments in connection with properties found by field check, which had not been recorded on the books, do you regard that as important information?

A. No, sir; there are not many such properties.

Q. And did you state the amount of money involved in these adjustments?

A. I stated the inventory adjustments, and I also stated the amounts involved reduced the original cost $449,042.39. That is a reduction to the original cost.

Q. That is a net figure?

A. Yes, sir; it is shown on page 34, statement C.

Q. Then there are other columns involved too, aren't there, such as material and labor costs, unloading and hauling, and warehouse handling?

A. Those are a different type of adjustments. I am referring now to the inventory adjustments only.

* * *

1208 Q. Mr. Antonelli, referring to column 6 on page 32 of your exhibit, you have used net figures there, have you?

A. Yes, sir; I did.

Q. And the working sheets do not show the dollar amount of adjustments in summary form, do they? The total dollar amount?

A. The working sheets will give you the total amounts for each account as it appears in statement C.

Q. You have stated that it was net and your working papers do not show the total gross.

A. The working papers show in detail each item added or retired in the inventory, and this is the result of the additions and retirements. The net figure is shown in the statement C, account by account.

The Trial Examiner. Does it show how you arrived at each amount as related to the original books?

The Witness. No. For such information it would be necessary to go back to the working sheets. It does record the amounts added and retired, item by item.

* * *

1209 Q. You have stated, Mr. Antonelli, I believe, that the dollar amount of your adjustments, in connection with property no longer in existence, which was still carried on the
1210 Company's books, was not important?

A. Not as far as dollars is concerned.

Q. Well, what do you mean? That $1,000,000 is not important?

A. I would not say that it was $1,000,000. It was not $1,000,000.

The TRIAL EXAMINER. Is it half a million dollars?

The WITNESS. I am not quite sure, but it is less than half a million dollars; I would have to look it up, because I cannot remember the figure.

By Mr. SPRINGER:

Q. In reference to the dollar amount of your adjustments in connection with the property found by field check, which had not been recorded on the books, you said also that you did not think that was important. Is that a million dollars?

A. Oh, no; it is a small amount. I am not sure—I don't know how much, but it is not a million dollars.

Mr. SPRINGER. Mr. Examiner, we renew our request for the tabulation showing the dollar amount of adjustments in connection with property no longer in existence which was still carried on the Company's books, and the dollar amount of adjustments in connection with property found by the field check, which had not been recorded on the books?

* * *

1212 Q. Would it require much work to prepare that tabulation?

A. After you see these work sheets, perhaps you will be satisfied with what we have. I believe they will show just what you wish.

Q. You will be able to testify to it from your sheets then?

A. I think so.

Q. Please refer to page 10 of your exhibit. How could property exist that was not recorded on the Company's books?

A. There is a lot of property that is not recorded on the Company's books and still it is in the field and owned by the Company.

Q. Does that mean that the property was in existence but it did not show in the plant accounts, and probably has been charged to operating expenses?

A. What property do you have in mind?

Q. How does property exist which does not show on the
1213 Company's books? What causes that? Is that an omission?

A. No; it might be that during the re-classification of accounts, certain properties were missed, or it might have been charged to expenses, although only a small portion of the properties are charged to expense.

Q. You mean the former reclassifications, do you not?

A. Yes; I mean the former reclassifications.

Q. Of 1920 and 1932?

A. Yes; sir.

Q. On statement B at page 31, you show the restated original cost of operated leaseholds, gas rights and royalties, totailing $1,684,635. Will you state the amount which was added to book costs to get that result?

A. The amount added to the books to get that result would be the difference between $1,684,635.98 and $1,331,100.55.

Q. Will you explain in detail how you determined the original cost of operated leaseholds, gas rights and royalties for each of the columns across page 31?

A. Column 4 was obtained from the financial statement. That is the amount shown in the financial statement for operated leases.

Column 12 was determined by adding the costs to the Hope Company, exclusive of the expense items and overhead, of the first lease acquired from other utilities.

1214 Column 5 was obtained by subtracting Column 12 from Column 4, and it is not supported by detailed leases adding up to the total of the column. This column was just a balancing figure.

Column 6 is the difference between the original cost of the leases and the book cost as shown on the Hope Company's financial statement.

Q. Column 6 is the difference between the figures and what other columns on page 31?

A. Column 5 plus column 6 plus column 12 and less column 4 will give you column 6.

The TRIAL EXAMINER. Will you repeat that answer, Mr. Reporter?

(The answer is repeated.)

The WITNESS. It is the original cost—it is the difference between the original cost of the leases, which is column 5, column

6 and colum 2, less the cost capitalized on the company's books of column 4, and that will determine the original cost of the leases to be $1,583,852.73 and the cost capitalized on the books is $1,331,100.55. The difference represents the inventory—no; it represents the adjustment, which is $252,752.18.

By Mr. SPRINGER:

Q. Is that sum of $252,752.18 under column 6 also a
1215 balancing figure?

A. No; that is an adjustment that had to be made on the books, in order to obtain the adjusted book cost of the operated leases.

Q. Is that supported by detail of the leases?

A. The detail? The total original cost is of the operated leases and is supported by detailed vouchers.

Q. Is the amount of $252,752.18 in column 6 supported by detailed leases?

A. That is only an adjustment.

Q. It is a balancing figure, is it not?

A. Well, you might call it a balancing figure. The original cost of the operated leases is $1,583,852 and the leases on the books are recorded at $1,331,100. The difference had to be shown under an adjustment, and that represents the $252,752.

Q. Will you explain how you determined direct material and labor costs not capitalized for operated leaseholds, gas rights and royalties?

A. I don't understand your question.

Mr. SPRINGER. I will ask the Reporter to repeat the question.

(The question is repeated.)

The WITNESS. Well, the leasehold consideration has
1216 always been capitalized, and only cost of obtaining for the years prior to 1921 were expensed, and also some of the recording was expensed, but most of the leasehold costs were capitalized. The items that were expensed were determined by ascertaining how much the company actually paid for such leases through vouchers and Company records.

By Mr. SPRINGER:

Q. Could you tell us how you arrived at the $64,398.61 in column 7 for direct material and labor costs, not capitalized, relating to operated leaseholds?

A. This amount comprises the cost of obtaining—and by the cost of obtaining, I mean the cost of the agent going out in the

field to acquire leases. I think it also includes certain recording charges. In some cases we were able to find the actual costs through vouchers. In other cases part of this $64,000 was estimated on the known costs of the other leases. By that I mean we knew how much it cost to obtain a lease by study of 3,700 or 3,800 leases, and we used that cost to estimate the cost of the leases that we did not know.

Q. Were the conditions comparable during the period that you have stated, to the test costs, which you used in your estimates?

A. This cost of obtaining price which we used as an estimated
price, was based on leases purchased or acquired after
1217 1921, and was used for the cost of obtaining Hope Com-
pany leases purchased prior to 1921. Although the wages paid by the Hope Company after 1921 were higher than prior to 1921, the transportation after 1921 was very accessible, and offsets the difficult transportation prior to 1921. The means of going from one place to another to see the various farm owners was not very good prior to 1921, and it took three or four or five times as long to reach a farmer prior to 1921 as it did after 1921.

Q. Now, Mr. Antonelli, will you please refer to the unoperated leases, gas rights and royalties, on page 31, with the restated original cost $681,882 and state the amount which was added to the book cost to get that result?

A. We had to add the amount shown on column 6, namely $104,881.48.

Q. Is that a balancing figure?

A. You may call it so. It is an adjustment figure.

Q. What is your description of an adjustment figure?

A. It is the difference between the original cost and the book cost, in order to balance with the books in column 4, we had to show this adjustment in the next column. It does not mean anything, as far as that is concerned—it is just an adjustment figure. It was shown just for the purpose so that we could bal-
ance with the Company's books, and it really has no
1218 effect on the original cost whatsoever.

Q. Now, will you please explain in detail how you determined the original costs for each of the other items of cost at page 31 for unoperated leaseholds, gas rights and royalties?

* * *

A. It was determined from the Company's records and vouchers.

Q. Starting with column 4.

A. It would be exactly the same way as I described it for the operated leases.

Q. On page 12, you state that all actual material and labor costs of the property in existence in 1938 which had been charged to expense were recorded on the original cost sheets. How did you determine the actual material and labor costs?

A. The actual material and labor costs were ascertained by finding out exactly how much money the Company spent
1219 in constructing these properties. It is the actual cost
that the Company spent for constructing these properties, and it was determined from the Company's vouchers and the Company's records.

Q. Were you able to find all of the vouchers required for your actual determination of the materials and labor costs?

A. I was not able to find all of the vouchers, but I was able to find vouchers to the extent of 93 or 94 percent of the original costs of the properties, as I stated before.

Q. And then you estimated the remainder?

A. I estimated the remainder, based on the Hope Company's costs for constructing similar properties under similar circumstances and for like periods.

Q. Of the vouchers you did find, what method did you use to identify any operating expense costs relating to the costs of existing properties?

A. I don't understand your question.

Q. Was it possible for you to tie the existing property up with the old vouchers which were recording these items as operating expenses?

A. I still don't understand it, but what I did in connection with the items that were charged to operating expenses—I went to the Company records——

* * *

1220 The Witness. I went to the Company records and the
Company vouchers, and determined the actual costs of these items, irrespective of the charge to capital or expense.

The Trial Examiner. The voucher in each case did not cover the particular expense that you were looking for, did it?

The Witness. Yes, sir; each item was identified by a voucher, and my job was to find the particular voucher and identify it.

The Trial Examiner. The voucher covered only that expense and nothing else?

The Witness. Yes, sir. The voucher for each item of equipment and each item of expense.

By Mr. Springer:

Q. Was the voucher sufficiently complete to enable you to identify the unit of property existing today and relate the expense to that unit of property?

A. Yes, sir.

Q. In every case?

A. In most cases. For instance, if I am looking for
1221 the cost of this table [indicating], the table is numbered, and I go to the voucher and look for this number and look for the description of this table, and that is the cost of this table.

The Trial Examiner. That would be the cost of the table alone, without respect to any labor or hauling or freightage or anything else which expense might have been incurred in connection with that table. Would that same thing apply to freight on the table, for instance, haulage on the table?

The Witness. Yes, sir.

The Trial Examiner. Or labor on the table?

The Witness. Yes, sir.

The Trial Examiner. You would find a separate voucher for each of those items?

The Witness. Yes, sir.

By Mr. Springer:

Q. On page 12, Mr. Antonelli, it is true that the direct cost of the materials and labor totalling $13,580,814.33 which you have added to the book cost of the property were formerly charged to operating expenses?

* * *

1222 The Witness. Yes, sir, that is true.

By Mr. Springer:

Q. When was the practice of capitalizing direct costs of material and labor begun by the Hope Company?

A. For certain accounts, the Company capitalized labor from its inception. For gas well construction, of course, they did not capitalize until later on in 1923. For certain of the pipe lines prior to 1907, the labor was not capitalized. The labor for transmission lines and main lines was always capitalized.

Q. What is the basis for your determination that the items formerly charged to operating expenses should be restated as

capital items which you have described as direct material and labor costs not capitalized?

A. Well, this was done in order to obtain the complete original costs. The true original cost.

Q. Under the instructions of the Classification of Accounts of the State of West Virginia for 1939?

A. Under the accounting principles of the classification of accounts.

Q. Regardless of the former decisions of management to
1223 account for these items?

A. (No answer.)

Q. Haven't you said that you did not care how they accounted for them formerly?

A. Yes, sir.

Q. But you were out to determine the original cost, under your conception of what that means?

A. I was out to determine the true and real original cost of this property.

Q. Pardon me, Mr. Antonelli. Will you please refer to page 31 of your exhibit. I did not mean to interrupt you when you were telling when the Company started to capitalize direct material and labor costs for each of the classifications of the property listed on that page. You have explained some of those; will you continue now?

A. Shall I begin on Account No. 300-1 and go down?

Q. If you will, please.

A. Land was always capitalized by the Company, and the only items that were charged to expense were certain abstracting costs. It will be very hard for me to give you a definite answer for each account, but generally speaking, materials were always capitalized. Labor for compressing station equipment and structures was always capitalized, except, I believe for the years 1918
1224 to 1922. That is true for field lines, although certain lines prior to 1907, the labor was not capitalized. Certain of the rights-of-way costs such as the cost of obtaining was not capitalized prior to 1920. I think that about covers everything.

Q. Was it the discretion of the management to account for those items in the manner that you have described?

Mr. Milde. I object to that. How can he testify as to what the management thought back in those times? He was not there twenty or thirty or forty years ago. What do you mean by your question?

The TRIAL EXAMINER. What do you mean by "Within the discretion of the management?"

By Mr. SPRINGER:

Q. Well, some decision had to be made, Mr. Antonelli, did it not, as to whether they should be capital or expense items?

A. I was not interested in that. I said that before, that my job was just to determine the original cost, the real original cost, irrespective of what the company did in the past.

Q. Then your answers would be the same relating to the costs of material and labor and the accounting of the Company as they were for the item of well-construction costs, when I asked

1225 you about intentional and informed accounting, during the history of the Company?

A. Yes, sir.

Q. On page 12, you state that you made an analysis of the costs experienced by the Company in what you term unloading, hauling and warehouse handling costs, and indirect field costs. What period of time did your analysis cover?

A. It covered from the beginning of the existence of the Company up to 1938. It covers the entire period of the Company's existence.

Q. On page 38, don't you talk about dress rehearsals?

A. Yes, sir.

Q. Field performances for unloading, hauling, and warehouse handling, were determined by rehearsals?

A. Yes, sir.

Q. What instructions were given to the men who played the parts in that case?

A. There were no instructions given. I sent one of my men that is familiar with warehousing handling, unloading, and hauling, and he spent several months going from one warehouse to another warehouse, interviewing all of the present employees, the past employees, going through the Company's records, and checking certain information, and also making time studies as to what was done in that time.

Q. What check did you make to determine that the con-

1226 ditions for the dress rehearsals were comparable to those twenty or thirty or forty years ago when the work was actually performed?

A. Well, these so-called dress rehearsals were comparable to those times when the thing was done twenty or thirty years ago.

with the same conditions, as much as possible, naturally, but that was all one part of the study that we made. We took several months in determining this unloading and hauling and warehouse handling.

Q. Mr. Milde said that you were not here twenty or thirty or forty years ago.

A. The records are here, and we have analyzed the records. We have talked to various employees, that were here twenty years ago. We have their names, and we know exactly what they did, and I am very sure that we obtained very accurate information affecting these types of costs.

Q. Will you please refer to page 38 of your exhibit. What were the available costs from the Company's records which you say substantiated your unloading pipe costs used in this exhibit at your dress rehearsal?

A. The pipe bills and payroll records and tally sheets.

Q. And how did they substantiate that?

A. If we found through actual field investigation that it cost, say fifty cents a ton to unload pipe, then we go to the
1227 records and find that it is about the same, and so we find that the men that gave us that information told us the truth.

Q. Will you please refer to page 12 of your exhibit and state whether the actual costs of unloading, hauling and warehousing and handling for property constructed and purchased as non-operating units by the Hope Company, were formerly charged to operating expenses?

A. If I understand your question, we did not include any unloading, hauling and warehouse handling of properties purchased from non-utilities.

Q. As non-operating units?

A. Yes, sir.

Q. Were the actual costs of unloading, hauling and warehouse handling for property constructed by the Hope Company formerly charged to operating expenses?

A. They were formerly charged to operating expenses, yes, sir.

Q. Then on page 32 of your Exhibit, that means that \$383,-454.28 has been added to the book costs as an estimate of the unloading, hauling and warehouse handling costs?

A. \$383,454.28, yes.

* * *

1228 Q. And none of that related to properties purchased from non-utilities as non-operating units?

A. May I correct my previous statement, please? This amount was added to our original costs to determine the correct original cost. It was not added to the books; it was added ~~to our original~~ costs. It is part of our original cost.

Q. And what is your original cost?

A. The original cost is $70,000,000 which we determined for the original costs of the Hope Company properties.

Q. What do you mean when you say that you have added it to your original costs?

A. It is part of the original cost.

1229 The Trial Examiner. You do not mean you added it to that $70,000,000, do you?

The Witness. No, I do not. It is part of the $70,000,000.

The Trial Examiner. What did you add it to to make the $70,000,000? I think that is what he is trying to find out.

The Witness. This $383,000 was added as the unloading, hauling and warehouse handling of the casing and tubing and the pipe that went into the construction of the field lines.

The Trial Examiner. That is what it was added for?

The Witness. It was added for the costs of unloading and hauling and warehouse handling of the pipe. It was not added to the book cost.

The Trial Examiner. What was it added to?

The Witness. It was added to the material for casing and tubing and pipe lines and field lines.

Mr. Milde. Material costs.

The Witness. Material costs.

By Mr. Springer:

Q. Was it added to the $49,000,000 amount in column 5, page 32, which is captioned "Per books?"

A. No, sir; it was added to the material costs as determined by us to be the original costs of our casing and tubing and field line pipe.

1230 Q. What was your starting point for the determination of that term original cost?

A. My starting point was to find out the amount of money the Company actually spent for material and labor for unloading and hauling and warehouse handling charges, and the indirect field costs and overhead costs, which gave me the complete cost, the complete original cost of the Company's properties.

Q. How did you do that?

A. I did it, as I have already explained, by analyzing the Company's records and vouchers and so on, and digging in the records which I found.

Q. Well now, Mr. Antonelli, does the original cost statement that you have made have any relation to the book cost?

A. No, sir; the book cost is shown here only to show you what is shown on the books, and of course, to show the adjustments and where we found the costs, how much of it was capitalized and how much was expensed. I wanted to make a job that would be clear to everybody and that would show just exactly where we got the information. And at the same time, to tie it up with the books.

The TRIAL EXAMINER. The purpose of putting the book cost in this exhibit, then, was to relate the book costs to your results?

The WITNESS. Yes. We started with the book cost, and
1231 they made certain adjustments to it, and then we added some other costs which we found.

The TRIAL EXAMINER. Actually you did not do that? You did not start with the book cost, other than to just make a record of the book costs, and then you went ahead and made a separate determination?

The WITNESS. I started it with an inventory. On the first column of the inventory, I showed what was shown on the books for each item separately. Then on the next column I showed the adjustments upwards or downwards, whether I had to increase the book costs or decrease the book costs.

The TRIAL EXAMINER. That was simply to relate your results, as I say, to the book costs?

The WITNESS. Yes, sir.

By Mr. SPRINGER:

Q. You started with book costs?

A. I started with book costs, yes, sir; in most cases.

Q. And is your so-called original cost classification an appraisal of the Hope System properties?

A. Oh, no. This original cost is the cost of the property, the actual cost of this property.

Q. What is your definition of "original cost?"

A. My definition of original cost would be the full cost of constructing the properties involved.

1232 Q. Is that the basis for your original cost figure?

A. No; this definition was modified to agree with the definition given on page 5 of the new Code of Accounts pre-

scribed by the West Virginia Commission, namely, that the original cost as applied to gas utilities, means the cost to the person first devoting it to the public service.

Q. And what are the elements of that cost?

A. I don't understand what you mean.

Q. Does it include labor and material?

A. It includes the full costs. It includes the labor and the material and any other charges and expense which might have been incurred in connection with the construction of the properties.

Q. You have restated, have you not, Mr. Antonelli, in your original cost statement, items which were charged to operating expenses since 1923, for example, that you have now capitalized?

A. Since 1923?

Q. Yes.

A. I cannot answer that question offhand, but I know that I determined the original cost, and if the Company has expensed certain items since 1923, I have not paid any attention to them. I determined the original cost, irrespective of what the Company did.

1233 Q. Well, as a matter of fact, you have capitalized items which the Company, since 1923, has charged to operating expenses, haven't you?

A. It is possible, but such items would be very small in amount.

Q. Well, it has actually been done, hasn't it? What do you means by "a small amount?"

A. It might be a small structure expensed by the Company. For instance, a gate-house costing \$50. or \$60.

Q. That is contrary to the instructions of the West Virginia system of accounts, is it not, which says that it was not intended that items formerly charged to operating expenses should be capitalized?

Mr. Milde. I object to that. It does not say that.

Mr. Springer. On page 48, in Section B.

The Witness. As I said before, I determined the complete original costs of the properties, regardless of paragraph B on page 48.

By Mr. Springer:

Q. You ignored that instruction?

A. Yes, because it is inconsistent with what is stated in Paragraph C and inconsistent with the definition of original cost.

Q. Why do you think that it is inconsistent?

A. Because the definition of original cost was interpreted
1234 by me to mean the full original cost for construction of the property, and also in Paragraph C, page 48, it states that if the original cost is not available, it could be estimated.

Q. How does that change the specific provision of the items formerly charged to operating expenses, that they should not be capitalized?

* * *

Q. Mr. Antonelli, did you not state on page 5 of your exhibit, that under the new uniform system of accounts of West Virginia, it was required to state plant accounts on the basis of original costs of the property?

1235 A. Yes, sir.

Q. And have you made your original cost statement in conformity with the instructions and prescriptions in that uniform system of accounts?

A. I made it in accordance with the accounting principles set forth in the new Code of Accounts.

Q. What do you mean by the "accounting principles?"

A. Well, I reclassified the properties in accordance with this new Code of Accounts, and showed the material and labor for each item of property in connection with this new Code of Accounts and determined the original costs of the properties.

Q. Were any interpretations required before you could undertake your work?

A. Required from whom?

Q. Any interpretations of the principles of accounting which you say you relied upon?

A. Well, I interpreted it to mean that in order to determine the original cost of the properties, I had to determine the full costs.

Q. Have you stated in your qualifications that you were an expert accountant?

A. What do you mean by an accountant?

Q. Are you a Certified Public Accountant?

1236 A. No, sir; I am not.

Q. Have you ever been an auditor?

A. What do you mean by an auditor? I don't understand just what you mean by an auditor.

Q. Have you an accounting degree, that you have been trained in the science of accounting?

A. No, sir.

Q. And you did not need any accounting advice to assist you in making your determinations of how to make an original cost study based upon what you call the principles in the West Virginia system of accounts?

A. I had as many as 180 men working on this job. We had engineers and accountants and clerks.

Q. Did you receive accounting advice on the principles or the interpretation of the uniform system of accounts?

A. I did; yes, sir.

Q. From whom?

A. By reading this new Code of Accounts, and from various accountants that worked under me, and also from the Company.

Q. Who in the employ of the Company advised you in the principles of accounting?

A. Various employees. Mr. Cross, Mr. Chisler.

Q. And you accepted their advice, I take it?

A. Yes, sir; I did. May I say that this determination of
1237 original cost is more than an accounting job? Before you
prepare the original cost, you have to prepare an inventory and you have to know what is in the inventory, and then the man that works on this original cost must know costs. An accountant knows figures but not costs.

* * *

1253 Q. Did you state earlier in your testimony that the determination of the original cost is an exact science?

A. I said it would be an exact science, if it is possible to find the actual cost on the Company's books and records.

Q. Is that an accounting or an engineering problem?

A. It is both. You have to know the items and you have to know the costs. I personally think it is more of an engineering problem than an accounting problem, and my experience in the last twenty years has been that original costs prepared
1254 under the direction of an engineer are the more accurate
original costs, because the engineer knows what he is talking about so far as the physical property is concerned.

The Trial Examiner. He may not know what the accountant is talking about, as far as the books are concerned?

The Witness. I was not interested in the books; I was trying to find out the original cost. Here is a chair, and I was trying to find out how much the chair cost. It is a detective job, really, to go to the books and find out the cost of the chair and identify it, and so that I can prove to somebody that the cost of this chair

is $10. That is what we did. I was not interested at all in the way that the Company kept their books or what their practices were.

By Mr. Springer:

Q. Please turn to page 12 of your exhibit. How did you determine the indirect field costs in your study?

A. The method followed is described.

Q. Is that on page 39?

A. It is on page 39, I believe.

Q. And on page 39, you say that present and former superintendents were interviewed, in order to learn actual account of the average time spent in the previous field construction. Did those superintendents have written records of their time spent on construction, or did they rely on their memories for
1255 this thirty or forty year old information?

A. They relied on their memories. If they had written records, of course, I was going to use them, but there were no such written records.

Q. And you relied solely on their memory of conditions forty years ago?

A. Well, those men, doing the same work year after year, they know very well how much time they spent in connection with the construction of pipe lines or drilling wells, and so forth. It is a very easy matter for them to give me a correct picture of the time spent in constructing properties.

Q. The men you interviewed have not been employed in that task for forty years, have they?

A. No, sir; I interviewed all of the men from the beginning up to 1938, all of the men that were available and still living.

Q. Of the men available, were there any who had supervised field construction forty years ago?

A. No; but many supervised field construction for a long time, and those men are men that grew up in the business, and they know how much time is necessary for supervision, even before they began supervising.

Q. And did you make a check of your determination to see whether it was in compliance with the cost of supervising field construction twenty to forty years ago, when it was
1256 actually performed?

A. Well, the costs that were determined as applicable to those dates, are not applicable to the supervision of today. These costs vary year by year, and it was so determined.

Q. Now, did you determine in 1938 what the cost of supervising field construction was in 1915?

A. We determined the salaries and expenses of the men that supervised the work in 1915. There was no trouble about that. We had that directly.

Q. You mean that field supervision and construction——

A. (Interrupting.) Yes, sir; name by name. I have the names of the men who supervised the work in 1915, down to the time-keeper, and I also knew and determined from the men that really did the work in 1915, how much time they spent in supervision. There was no trouble at all to determine the cost.

Q. Do you remember that man's name?

A. Oh, yes; I have several—not one man's, but I have several men's names. It may be twenty or thirty or it may be as many as fifty. We spent months doing this work. We visited every district and interviewed every man and reviewed all of the pay-roll vouchers and pay-roll books.

Q. And were the actual indirect field costs for the properties constructed or purchased from nonutilities or from other
1257 utilities, which not operating units of the system, formerly charged to operating expenses?

A. I don't understand your question.

Mr. Springer: I will ask the reporter to repeat the question.

(The question is repeated.)

The Witness. The original cost did not include indirect field costs for such properties.

By Mr. Springer:

Q. Does the indirect field costs which were actually incurred for the property constructed by the Hope Company, were they formerly charged to operating expenses?

A. Yes, sir; they were.

Q. Do you mean, Mr. Antonelli, that the only addition in your original cost statement of indirect field costs was made to property constructed by the Hope Company?

A. We also added indirect field costs to properties constructed by other utilities.

Q. You mean that it covered the properties purchased by the Hope Company from other utilities as an operating unit?

A. Yes, sir.

* * *

1258 Q. Mr. Antonelli, you stated that the Hope Company in the past has charged indirect field costs to operating expenses?

A. Yes, I did.

Q. And I assumed that that was intentional accounting on the part of the company?

A. I don't know what was the company's intention.

Q. Well, it was a fact, was it not, that you found that they had practiced the expensing of indirect field costs?

A. They were charged to operating expenses.

Q. And could you tell us for what period they were charged to operating expenses?

A. No, I could not. But I would like to make a statement that we are referring now to just certain accounts, and not
1259 all of the accounts. We are referring to gas wells and field lines. For the other accounts, the Company has charged indirect field costs direct to the properties.

Q. Do you know whether that was done since 1922?

A. I would say offhand; no, sir.

Q. You have added to your book costs an estimate of overhead costs totalling $2,866,414.26 for property constructed or purchased from nonutilities or as nonoperating units, haven't you?

A. I have not added anything to the book costs. I determined the original costs, and this amount represents the overhead.

Q. On page 13 you state that to determine the original cost of the company's properties in accordance with the accounting principles set out in the West Virginia system of accounts, it was necessary to determine the overhead costs in connection with construction and acquisition of properties. Now, referring to the West Virginia system of accounts, page 55, plant construction, No. 6, will you please read that into the record?

A. You mean as to overhead construction costs?

Q. Yes.

The Trial Examiner. That is already an exhibit. Why read it into the record again?

1260 Mr. Springer. I want to refer to the language.

By Mr. Springer:

Q. Does not paragraph B of that instruction on overhead construction costs forbid the addition to utility plant accounts such as you estimated for overhead?

A. First of all, my overheads are not estimated overheads; they are actual overheads, and not estimated. The only estimate that we had to make was the allocation between operation and new construction work.

Q. How did you determine the actual overhead costs?

A. We determined them from an analysis of the Company's books. Somebody had to supervise and plan the new construction work, and it was based on the Company records.

Q. Do you mean that the Company records are sufficiently specific to permit a segregation retroactively of overhead construction costs?

A. It was segregated by us on an equal dollar basis between operation and new construction work.

Q. Well, that is an estimate, is it not?

A. No; that is an allocation, and it is a very reasonable and fair allocation. As a matter of fact, I think the supervisory forces of the Company spent more time in connection with new construction work than they do with regular operation, which is just routine work.

1261 Q. What is the difference between an allocation and an estimate?

A. An allocation is when you know the total cost and you allocate it between certain things, while an estimate is where you actually have to estimate it.

Q. Could you make an allocation without making an estimate?

A. Yes.

Q. How?

A. If the Company spends $6,000,000 for operation and $4,000,000 for construction, the overheads would be 60 percent operation and 40 percent construction. That is just an example. It is very easy. It is all done on an equal dollar basis.

Q. Are you responsible for all of the statements made in connection with your study of overhead construction costs?

A. No, sir; I had discussions with the management of the Company and with the company lawyers.

Q. What instructions or advice did they give you?

A. I don't recall the specific instructions, but we decided that this was the only method by which we could determine the fair overheads applicable to the Hope Company properties.

* * *

1262 Q. Now, Mr. Antonelli, on page 13, on the subject of overhead costs, referring to group four, general overhead,

consisting of general administrative, legal, accouting and engineering service, and in detail on page 44, you state that some engineering expenditures were included by the Company in the investments, and that you did not use those expenditures in determining these overheads. Are those engineering expenditures still included in investments?

A. Yes, they are.

Q. In addition to your claim for engineering service overheads?

A. Well, there is no duplication between the engineering that has been charged to investment and engineering that has been expensed, but charged to operation. If it is charged to investment, it is still in investment and it has not been taken into consideration in determining the overheads.

Q. How could you determine there was no duplication?

A. Well, because the Company does not make a practice to charge the time of a supervisor in two places. They charge it to expense or charge it to investments. We have checked it and we know.

1263 Q. You have checked every entry?

A. Absolutely.

Q. Then this could not occur, you say, that if engineering and supervision were in the past capitalized and shown in the investment, that you have in your overhead cost statement added something for the same engineering and supervision?

A. No, sir.

Q. And you have checked every entry, to be sure?

A. Absolutely.

Q. In the past, the Company has made an allocation of the engineering expenses between capital and operating expenses, isn't that so?

A. In the past, the company has charged for certain jobs a portion of the time of certain of the men that supervised the construction of the new work; yes, sir.

Q. And that went into investment?

A. That went into investment; yes, sir.

Q. Now, you have come along in your original cost statement and taken the portion of engineering overhead that went to the expense and reallocated some portion of that on top of the investment, which includes the former engineering service?

A. That is not the same engineering. There is no duplication, as I said. Yes, we did, because engineering as was

1264 shown in the investment was not the complete engineering, and that these overheads include more than that engineering. In our engineering is included the administrative costs and the legal costs and the accountants' costs, and those costs are always charged to operating expenses.

Q. My question was confined to engineering supervision.

A. But our general overheads include more than engineering. It includes administrative, legal, accounting and engineering services.

Q. What examination did you make of the time distribution of the engineering department on the basis of which certain costs were allocated to investment by the company?

A. In that case the investigation was done during the examination of the vouchers, to determine the true cost of the operating units that we are trying to get the original cost for.

Mr. Springer. May I have my question repeated?

(The question is repeated.)

The Witness. There was no time distribution. If any engineering charges were charged to investment, they were charged directly through vouchers. We did not have to find the time distribution. As a matter of fact there was no time distribution.

1265 By Mr. Springer:

Q. What was the basis of your information for the allocation?

A. The allocation was based on a dollar basis between operating expenses and gross addition to investments.

Q. That was not the basis which the Company used when it originally accounted for engineering?

A. No. Any time that the Company charged engineering to investment, they would charge it directly.

Q. Were you able to determine what engineering services reflected the amounts directly chargeable to operating expenses?

A. No, sir.

Q. How would you be able to reallocate retroactively then the engineering services?

A. I did not allocate just the engineering services; I allocated the general overheads, and the general overheads includes the engineering services.

Q. On pages 43 and 44 of your exhibit, you mention the overheads. Was any portion of the administrative, legal or account-

ing department expenses identified as items 1, 2 and 3, ever allocated to investment by the Company?

A. As far as I know, those charges were never allocated to investment.

Q. On page 44, under the accounting department
1266 functions, you list the preparation of financial statements. Do you think that the cost of preparing financial statements should be allocated to construction costs?

A. Well, that is only one function of the accounting department, and naturally if the Company lays a line, they will have to make a statement of the conditions. Surely. Why not?

Q. Your answer is "Yes"?

A. Yes, sir.

Q. Do you think that keeping the cash book, showing the receipts and disbursements of the Company funds, and the general ledgers and books, should be allocated to construction account?

A. These are all various functions that the accounting department does, and among those functions are the functions that pertain to the construction of new lines, to keep track of the books, preparing inventories, taking care of the payrolls, and so forth.

Q. Is your answer, Yes?

A. Yes, sir.

Q. Can you quote an accounting authority which would support your conclusion that keeping a cash book and preparing financial statements should be allocated to construction costs?

* * *

1267 The Witness. This represents all of the functions of the accounting department, and naturally, we allocate only a certain portion of it to the construction work, but proper estimates for the cash requirements might as well be a part of the new construction work.

By Mr. Springer:

Q. Do you have an accounting authority which would support your statement that preparing financial statements, in part, should be allocated to construction costs?

A. All of this allocation was made after discussion with the management and the accountants of the Company.

Q. Do you mean Mr. Chisler?

A. Yes, sir.

Q. Do you state definitely that none of the costs of the functions listed under legal, administrative, engineering and
1268 accounting, on pages 43 and 44 were incurred in connection with gas purchased for resale?

A. Gas purchased for resale does not involve any considerable supervisory expense.

Mr. SPRINGER. Will you repeat my question, please?

(The question is repeated.)

The WITNESS. Not to the extent of the amount of the gas purchased for resale, no, sir.

Mr. SPRINGER. I do not believe that answers the question. Will you repeat it again?

(The question is repeated.)

The TRIAL EXAMINER. Now, read the answer.

(The answer is repeated.)

The TRIAL EXAMINER. It is not very clear to me.

Mr. COCKLEY. You mean No, don't you? Is not that the effect of it?

Mr. MILDE. Do you understand the question, Mr. Antonelli?

The WITNESS. Yes, I do. Maybe the incidental costs in connection with the purchase of gas has been included, but to include the amount paid for gas purchased would greatly distort the overhead percentage.

By Mr. SPRINGER:

Q. How do you know that?

A. It is self-evident.

1269 Q. Will you explain that to me?

A. Because the gas purchased for resale is a very large amount of money, and the Company would make a contract and that contract would be in effect year after year and certainly it would distort the picture if we added this gas purchased for resale year after year in order to determine the overheads. The overheads would be out of line.

The TRIAL EXAMINER. Your question was whether these overheads had been added to the gas purchased, was it not?

Mr. MILDE. In replying to the Examiner, let me ask if you did not add overheads to the gas purchased? Did you?

The WITNESS. No; we did not.

The TRIAL EXAMINER. That is the way I understood the original question. The question was whether or not any of these items had been included in gas purchased.

The WITNESS. The gas purchased was eliminated from the operating expenses when the overheads were determined.

By Mr. SPRINGER:

Q. Do you know how much of the costs of the functions of the administrative, legal, accounting and engineering departments are related to gas purchased for resale?

A. Not offhand; no, sir.

Q. You mentioned the contracts and the functions of the legal department relating to gas purchases for resale, and you
1270 exclude in your computations the gas purchased for resale?

A. Yes, I do.

Q. Are you able to state definitely that none of the costs of the functions listed under the administrative and accounting departments are incurred in connection with your second exclusion, gas used for compressor station operation, on page 44?

A. Yes, sir.

* * *

Q. Can you state that none of the costs of the functions you have listed under administrative and accounting departments, are incurred in connection with your third exclusion, depreciation and amortization items and taxes, other than payroll taxes?

A. Item Number 3 has been excluded because depreciation and amortization do not involve actual expenditures. Taxes do not involve supervision in proportion to the amount of the tax paid.

Q. Your answer would be "No." to my question, would it not?

A. That is right.

Q. Can you state that none of the costs of the administrative, accounting and engineering departments, are incurred in
1271 connection with your fifth exclusion, which is three-quarters of the cost of large purchases of property in place?

A. That is approximately right; yes, sir.

Q. You mean the answer is, No?

A. The answer is, No.

* * *

1325 Q. Now, will you please refer to page 13 of your Exhibit 20. Were the actual administrative and general expenses formerly charged to operating expenses by the Hope Company?

A. Yes, Sir; they were.

Q. Did the Hope Company ever maintain any records by which it could equitably allocate administrative and general expenses to specific construction projects?

A. No, sir.

Q. Have representations ever been made for the Hope Company in a rate proceeding where its administrative and general expenses reflected on the books had been reduced to exclude amounts now claimed to be allocable to construction costs?

A. May I have that question repeated?

1326 (The question is repeated)

The WITNESS. I personally don't know of any.

* * *

By Mr. SPRINGER:

Q. In your exhibit on original cost, you have restated approximating a net of $17,000,000, which were formerly charged to operating expenses, from 1900 to 1939, isn't that so, Mr. Antonelli?

A. That is correct.

Q. Mr. Antonelli, referring to page 13 of your exhibit, how did you determine that interest during construction should be 6 per cent?

A. We had to have a reasonable interest rate which could be used over a long period of years, and after consideration, we decided to use the West Virginia legal rate for interest for all items in the original cost exceeding $5,000. in cost and requiring more than thirty days to construct.

Q. Whe nyou say "we decided" would you name the per-
1327 sons in the conference?

A. The decision was made by the management of the Company, Mr. Chisler and Mr. Tonkin, I believe—I am not quite sure if he was present—and the counsel for the Hope Company——

* * *

The WITNESS. A more appropriate interest during construction would have been the fair rate of return applicable to the properties throughout the history of the Company. However, it would have been very difficult to determine such a rate year after year, and that was one of the reasons that we finally
1328 adopted the 6 per cent legal rate, which we think is a reasonable rate.

By Mr. SPRINGER:

Q. Has the Hope Natural Gas Company ever paid 6 per cent on borowed money?

A. They have loaned money out at 6 per cent.

* * *

Q. Do you know whether the Hope Company has ever borrowed any money for construction purposes?

A. I don't know offhand, no, sir; but I made an investigation and I found out that the Company has loaned money at
1329 6 per cent.

Q. What has been the Company's experience in borrowing money? Has it ever paid 6 per cent for borrowed money for construction purposes?

Mr. COCKLEY. I still object to the question.

The TRIAL EXAMINER. The objection is overruled.

Mr. COCKLEY. Exception.

The WITNESS. I must repeat my answer that I don't know.

By Mr. SPRINGER:

Q. You don't know?

A. No, sir.

Q. You made no investigation of the cost of money to the Hope Company?

A. No, sir; I did not.

Q. Please refer to page 31 of your exhibit. Apparently overheads for compressor station equipment have been duplicated in that statement. Would you explain that?

A. What overheads?

Q. Engineering and superintendence, for example?

A. No, they have not been duplicated.

Q. Does not the book cost already include overheads for engineering and superintendence?

A. It includes a small amount of engineering and superintendence. They call it engineering and superintendence,
1330 but usually it means surveyors or engineers making locations and expenses for some of the general officers.

Q. And the engineering and superintendence in your overheads which has been added includes those same services, does it not?

A. It is no duplication at all.

Q. Why?

A. There is an additional general overhead which is administrative, accounting, engineering, and legal.

Q. How do you know that it is not a duplication?

A. I know because I investigated it. I had pages to show station by station, who did the station and how it was built and what was included and what was excluded. As a matter of fact I did not include all of the costs. I have a statement that will show even by names, the men that have been excluded. We have pro-rated all overheads on an equal dollar basis. It was taken as to each item of equipment and there was no duplication whatsoever in the overheads.

Q. Now, referring to page 31 again, you have a classification of property there, property purchased from non-utilities or other utlities, where not an operating unit or system. Who determined what purchased property was to go into this classification?

1331 A. A list was prepared of all of the companies from which we purchased properties, and that list was turned over to the legal department of the Hope Natural Gas Company, and the legal department spent a considerable time in going over the annual reports filed with the West Virginia Public Service Commission, and also by writing to the various companies.

Q. And you relied on that determination for your classification?

A. Yes, sir.

* * *

Q. Do you know what the basis of the classification was, or did you just take the legal department's determination?

A. Most of it is self-evident. The companies are such, when they are serving the public, and when there were a few doubtful, and it was gone through very carefully, and we carried

1332 on correspondence for several months before we finally decided whether or not the Company was a utility.

Q. Will you state the amount of property purchased from non utilities or from other utilities, where not an operating unit or system, as reflected in your exhibit, and which represents what percentage of the total of such property, plus the property constructed by the Hope Company?

A. I have an approximate figure which shows the properties acquired from non-utility companies. It is only an approximate figure. It amounts to approximately $4,800,000 which is less than 7 per cent of the total original cost.

Q. It would be a greater precentage, would it not, of the total of the property plus property constructed by the Hope Company?

A. This $4,800,000, the 7 per cent represents the percentage of the total property—of the $70,000,000.

Q. Yes; but the percentage of $64,917,000 of property purchased from non-utilities, or from other utilities where not an operating unit or system, plus the property constructed by the Hope Company, would be greater, would it not?

A. Yes, sir.

Q. Do you have that percentage?

A. No, I have not. It would be about 7½ per cent.

* * *

1334 Q. Do you know the amount of property that was purchased by the Hope Company from associated companies?

A. No, sir; but it is in my papers, in my working papers.

Q. Could you furnish that?

A. That would be a very big job, because we have our properties set up by units of property, and it would necessitate going over all of the working papers.

Q. Do you remember whether there was much property purchased from associated companies by the Hope Company?

A. They purchased properties from the Clarksburg Light & Heat Company, the Mountain State Company, the Flaggy Meadow Company, some perhaps from the Reserve Gas Company, the Hope Construction and Refining Company, the South Penn Oil Company—those are the major companies, I think.

Q. Those are associated companies, from which the Hope Company has purchased property?

A. Yes, sir.

Q. Do you know the dollar amount?

A. Not offhand; no, sir. How much the company paid for the properties, or the original cost?

1335 Q. Stated in original cost.

A. No; it is all intermingled in our work sheets, with other properties, and it will be a big job to get it.

Q. It might be $9,000,000 might it not?

A. The total purchased properties from utilities and nonutilities amounted to $9,000,000 but I know that the Company has purchased properties from other companies which are not affiliated or related to the Hope Company, so it could not be $9,000,000; it must be less.

Q. Do your working papers show the original cost to the former companies of the properties purchased by the Hope Company?

A. It shows the properties as they existed on December 31, 1938—the remaining properties as of December 31, 1938.

Q. Mr. Antonelli, is the amount of properties purchased by the Hope Company from associated companies readily ascertainable from your working papers?

A. I don't know what you mean by "readily ascertainable."

Q. Is it set out? Is it segregated or is it intermingled?

A. The development of the cost is segregated, but in a summary in the final work sheets it is intermingled, because, for instance, the Company might buy a well from the Reserve Gas Company and drill it deeper, and therefore, half of the well is Hope
1336 Company and drilled by the Hope Company, and the other half was purchased from the Reserve Gas Company, so in order to give you a statement of the amount, as you would like to have it, it would be necessary for me to go to the working papers.

Q. Did you not first make an analysis of purchases by the Hope Company?

A. Yes, sir; I did.

Q. Then you must have a list of purchases by companies and the amounts, and then the associated companies could be selected from that list?

A. But this is not an easy job. We have been working here now for a long time and we have 78,000 sheets, you know. We tried to do a job which could be substantiated, and it is not just sitting down and taking figures and going to this book and getting the cost of a prior company and then going to another book; it is not done that way. We had to investigate it and investigate the vouchers, and investigate the records, and we had to make certain adjustments, and we had to apply costs that were not shown on the books, so I could not just go there and give you a figure in five minutes or a half a day. It will take time. We have all the information—we have everything.

Q. That information is available?

A. Yes, sir; it is available.

1337 Q. But it would require a compilation of material?

A. The property purchased from affiliates and still in existence—information of that kind is available, yes, sir.

Q. You said that you made an analysis of the property purchased by the Hope Company?

A. Yes, I did; a very detailed analysis.

Q. And that would show the total property purchased by the Hope Company from associated companies, would it not?

A. As they existed on December 31, 1938.

Q. Can you furnish that information?

A. It will require a little time. Of course, I will have to ask my counsel.

Mr. MILDE. I don't understand what Mr. Springer wants.

Mr. SPRINGER. It is pretty obvious that when the Hope Company buys property from an associated company, it is important to investigate the price paid and the original cost to the company first dedicating it to the public service, in order to determine whether or not there is an inter-company profit.

* * *

1338 Q. In estimating the general and administrative expenses allocable to cost of this type of purchased property, did you distinguish between properties purchased from associated companies and from nonassociated companies?

A. Are you referring to properties purchased from utilities or from nonutilities?

Q. From nonutilities.

A. On properties purchased from nonutilities, the overheads that we added was equivalent to one-quarter of the general overheads which we applied to the property purchased from utilities, and that one-quarter of the general overhead was the same for the property purchased from affiliated companies or property—no: it could not be—yes: it is possible. Excuse me. From
1339 affiliated companies, or nonaffiliated companies, or nonutility.

Q. How did you determine that it should be one-quarter for overheads estimated to be allocable to property constructed by the Hope Company?

A. I discussed this matter with the management of the Company, and with counsel, and they all came to an agreement that the time of the Company's supervisory forces which was spent in negotiating and purchasing such properties, was about a quarter of the time that they spent in constructing new properties, and it was decided to use a quarter of the general overhead.

Q. Were any studies made upon which the one-quarter determination was based, or did you just get a statement?

A. In connection with another company, I had occasion to make a study of this type, and from our engineering experience with such properties, we think, and I think myself, that one-quarter is a fair figure—that one-quarter of the general overhead is a fair figure for properties purchased from nonutilities.

Q. What other company were you speaking about?

A. With a company that was purchased from—I don't know offhand; I will have to refer to the working papers.

Q. You will look that up?

A. Yes.

1340 Q. When you spoke of the management and counsel, could you name the persons who advised you to use the one-quarter estimate?

A. Mr. Chisler and Mr. Tonkin and counsel for the Company.

Q. Now, referring to property purchased by Hope from utilities, as an operating unit or system on page 32, totalling $3,218,399.28 in column 12, captioned, "Cost Capitalized per Hope books," what does that represent?

A. That represents what the Hope Company paid for these properties, exclusive of any additional charges that might have been incurred. That is the actual price that they paid.

Q. That is the cost to the Hope Company at the date of their acquisition?

A. For the properties still in existence at December 31, 1938.

Q. What disposition was made of the costs subsequently retired?

A. I could not answer that question.

Q. You know how much the Hope Company paid for the property but you don't know how much has been retired since it was acquired?

A. No; because I was not interested in how much property had been retired. I worked ~~from the inventory~~ as of
1341 December 31, 1938, the total properties existing as of that date.

Q. Do you know what the cost capitalized per the predecessor company books was in relation to the $3,000,000 figure of cost capitalized per the Hope Company books?

A. We might have some of those figures on our working papers, but I am sure that we do not have it for all of the companies.

Q. Do you know what the original cost of the property was when it was first devoted to public use by the predecessor company?

A. No, sir; I was not interested to know.

Mr. Cockley. Are you speaking now of nonutility companies?

Mr. Springer. No; we are speaking of property purchased by

the Hope Company from other utilities, as an operating unit or system.

Mr. MILDE. What was your question?

By Mr. SPRINGER:

Q. Do you know what was the original cost of the property to the predecessor company first devoting it to the public use?

A. No, sir; although there might be some papers in my files which will give you some information, but I am certain that the information is not complete.

The TRIAL EXAMINER. You said that you were not inter-
1342 ested in that question?

The WITNESS. No; because I was interested in the properties existing December 31, 1938, and I did determine the original cost of properties which are still in existence but not the properties that were retired or withdrawn.

Mr. COCKLEY: I do not think the witness and the Examiner are talking about the same thing, but maybe I am the one that is confused.

By Mr. SPRINGER:

Q. Referring to page 32, Mr. Antonelli, under the caption "Property purchased by Hope from other utilities as an operating unit or system," you show in column 12 the figure of $3,218,399 cost capitalized per the Hope Company books?

A. That is right.

Q. Did you determine the original cost of that property to the predecessor company first devoting it to public use?

A. Certainly; yes, sir.

Q. You did?

A. Yes, sir.

Q. And where is the difference between the original cost and the amount that Hope paid for that property?

A. That would be shown in the details of our working papers.

Q. Under the new Uniform System of Accounts for West
1343 Virginia gas utilities, that would appear in the acquisition adjustment account, would it not?

A. This is not an accounting job. I was just determining the original cost of these properties.

Q. Of course, you constantly refer to the West Virginia Public Service Commission Uniform System of Accounts in your exhibit. You say you have adopted the accounting principles?

A. Yes, sir.

Q. And you have used their classifications of property. Did you just take what you desired from the system and ignore the rest?

A. No. This original cost has been set up on the same basis as if this uniform system of accounts had been in effect throughout the history of the Company.

Q. Does your exhibit contain the amount which you say you determined to be the original cost of the property to the predecessor company first devoting it to public use?

A. Yes, sir; if you will refer to the property purchased by the Hope Company from other utilities and operating systems or units; yes, sir.

Q. Well, is that in your exhibit?

A. That is in various items of equipment purchased. You will find it in the well accounts, building of pipe lines, and it is all set up, and we will estimate what the company

1344 paid and what was original cost.

Q. Don't you have a tabulation that will show in one column the original cost of the property to the company first devoting it to public use, and in the next column the amount of money paid by the Hope Company for that property, and another column showing the difference?

A. No, sir. We had a job to prepare this original cost, and we had a big job and we could not stop and make different kinds of exhibits, exhibits that I did not think were necessary at the time.

* * *

1346 The Witness. Column 12 gives you the cost capitalized on the Hope Company's books, and that shows what the Company actually paid for these properties.

The Trial Examiner. But it does not show what the company originally devoting it to public use paid for it, does it?

The Witness. Column 11 will give you that for——

Mr. Milde. (Interrupting). Column 17.

The Witness. Column 17 will give you that.

The Trial Examiner. Column 17 represents the total of columns 12, 13, 14, 15, and 16.

The Witness. That is the original cost to the prior companies.

* * *

1348 Q. On page 32, Mr. Antonelli, with respect to direct material and labor costs, to other utilities, which were purchased as operating units in the amount of $4,639,000 how did you secure that information?

A. The information came from records pertaining to the prior companies, and in some cases where the records were not available, direct material and labor costs were estimated.

Q. Do you know how much of the amount was charged to operating expenses on the books of the predecessor company?

1349 A. In most of the cases, the companies were affiliated or associated with the Hope Company and were under the same management, and the books were kept about the same as the Hope Company's, and I had an idea—I knew that the affiliated companies kept their books as the Hope Company did.

Q. How much of the amount did you have to estimate?

A. I could not tell you offhand.

Q. Pardon me?

A. I could not tell you offhand. I don't know.

Q. Was it a large amount?

A. I don't think so; no.

Q. I believe you have stated that the direct material and labor costs were charged to operating expenses by the predecessor companies?

A. Direct material and labor costs? No; I did not.

Q. Didn't you say the practices were the same as the Hope system?

A. Yes sir. The books were kept exactly as the Hope keeps their own books..

Q. How did you determine the actual material and labor cost for other utilities?

A. By analyzing the vouchers, as in the case of the Clarksburg Heating and Light Company. In the case of the Mountain
1350 State, I think we had quite many records. We had some records in connection with the Flaggy Meadow Company.

Q. On page 16, you state that where the original costs could not be ascertained from the predecessor company's books, that Hope Company's experience was used as the basis. Did you make an appraisal for that purpose?

A. An appraisal? No, we did not make any appraisals at all. We determined the original cost.

Q. If you had to use the Hope Company's experience you had to determine comparability, didn't you?

A. Certainly. For instance, the Clarksburg Light & Heat Company has a well in the Bridgeport District and the Hope Company has a well in the Bridgeport District, and if we have

the cost of drilling a well, say in 1916, for that district, certainly that would be a fair price to use for pricing the Clarksburg Light & Heat Company's well. It is not an estimate or making a unit cost, but it is basing it on the best available information that we could get.

Q. On page 34, under column 14, unloading, hauling and warehouse handling cost on property purchased by the Hope Company as operating units, totalling $18,556, were they formerly charged to operating expenses?

A. I don't know. These overheads were based on the Hope Company's experience. It does not amount to very much in dollars.

1351 Q. You did not make an examination of the predecessor company's books to determine that cost?

A. No; it would have involved a great deal of work and it was not worth it. I don't believe we would have been able to get all of the costs.

Q. You don't know whether they were expensed or capitalized?

A. No, sir.

Q. On page 32, referring to——

A. (Interrupting.) I would like to correct that statement. I know they were not capitalized and they were not included under direct material and labor costs. I know that much.

Q. Under indirect field costs, column 15 of page 32 of property purchased by the Hope Company from other utilities, as operating units totalling $38,919 were those costs determined from the records of predecessor companies?

A. No, sir; they were based on the Hope Company's experience.

Q. That was the basis of the memory of the men who were field superintendents?

A. Yes, sir.

Q. Were actual indirect field costs of property purchased by the Hope Company as operating units, charged to operating expenses by the predecessor companies?

A. I don't understand your question.

1352 Mr. Springer. I will ask the reporter to repeat the question.

(The question is repeated.)

The Witness. It all depends on the kind of properties involved. In some cases, some kinds of properties, the predecessor, judging from the method that the Hope Company kept their books, the

indirect field costs were charged direct to investment. In other cases, such as gas well equipment and field lines, my judgment on what I saw on the Company's books was that they were charged to operating expenses.

Q. Were any of those indirect field costs capitalized by the predecessor company?

A. As I said, for certain of the accounts, yes, sir.

Q. Do you know how much?

A. No, sir; that was reflected in the costs which we obtained from the predecessor company, but I don't know how much.

Q. Now, referring to the overhead costs, column 16, page 32, totalling $122,042, how do you know that the overhead percentages for the Hope Company constructed properties apply to the purchased properties?

A. That was based on my experience in the last twenty years.

The Hope Company overheads were very reasonable, and
1353 I considered that it would be applicable to properties that were purchased from other utilities, as part of a unit or system.

Q. Were the actual overhead costs for property purchased by Hope as operating units, charged to operating expenses by the predecessor companies?

A. Yes, sir; as far as I can determine from the company's predecessor books.

Q. Throughout your examination, you have stated that you consulted Mr. Chisler or received instructions from him in the preparation of your exhibit.

* * *

The Witness. Yes; I consulted Mr. Chisler and consulted some of the other men of the Hope Company management, and I consulted the counsel of the Company.

* * *

5068 Cross-examination by Mr. Slaff:

Q. Did you follow a Code of Accounts in the preparation of your original cost determination in this case?

A. Yes, sir; I did, as much as possible.

Q. What Code of Accounts?

A. I followed the West Virginia new Code of Accounts as prescribed in 1939.

Q. And the Federal Power Commission System of Accounts?

A. That is practically the same, those two.

Q. Now under those Codes of Accounts or Systems of Accounts similar to those two, what original cost determinations have you made other than the Hope determination?

A. Peoples Natural Gas Company.

Q. And those are the only two that you have made under
5069 those types of systems of accounts?

A. That is right.

Q. And you say with respect to the Peoples determination, Mr. Radcliffe, the Treasurer of the Company, was in charge of that, in general charge?

A. Yes; he was the man that decided on certain policies that we had to follow.

Q. Tell me this, Mr. Antonelli: Do you consider a coat of paint a property?

A. A coat of paint?

Q. Yes.

A. Why, certainly, if the house was painted when the building was first built, sure, why not?

Q. I am not asking you, Mr. Antonelli, to ask me why not. You do, then, consider a coat of paint a property of the Hope Natural Gas Company?

A. Yes, because I wanted to determine the complete original costs of the property. We went out in the field and found this building ——

* * *

5070 Q. (Interposing.) What building? Have I inquired about any building, Mr. Antonelli?

A. You said coat of paint as part of some other item.

Q. I am asking you whether you consider a coat of paint, just that, a property of the Hope Natural Gas Company. Now will you tell me whether you do or do not consider that a property?

A. I couldn't answer that question.

Q. You can't?

A. No, sir.

Q. Why didn't you say so in the first place?

A. All right.

Q. You cannot answer, then?

Mr. Milde. He has already answered.

Mr. Slaff. Now he has changed his answer.

By Mr. Slaff:

Q. You cannot answer as to whether or not you consider a coat of paint a property of the Hope Natural Gas Company, is
5071 that correct?

A. If it is part of some other item, yes; it is a property, and I tried to explain why.

* * *

5072 By Mr. Slaff:

Q. Now, Mr. Antonelli, let's see if we can start over again in the light of the instructions—and the only binding ones are those of the Examiner.

In the light of those, can you now tell me whether you consider a coat of paint a property of the Hope Natural Gas Company?

A. I could not answer this question without qualification.

Q. And do you consider freight costs a property of the Hope Natural Gas Company?

A. Absolutely; yes.

Q. Now with respect to our coat of paint, or your coat of paint, you said you couldn't answer whether you considered that a property of the Hope Natural Gas Company without a
5073 qualification, is that right?

A. Yes, sir.

Q. Do you want to answer that with a qualification now?

A. Yes, sir; I do.

Q. Will you go ahead and do that?

A. All right. When we made the inventories of the Hope properties, we found that certain buildings were painted. Then by going to the Company records we found the cost of the buildings and found the material and the labor, but the voucher disclosed that the cost of painting was not included in this particular voucher for the particular building that I have reference to. Therefore, we added to the cost of the building the cost of the paint, and in that case we considered the painting as a cost of the property just as much as the lumber or anything else that went into that particular building.

Q. No, I didn't ask you whether you considered the cost of the painting as a cost of the property, that was not the question, Mr. Antonelli. The question was whether you considered the coat of paint a property of the Hope Natural Gas Company?

A. Yes, sir, with the qualification that I made.

Q. You do?

A. Yes.

Q. Now will you turn to page 72, say, of your exhibit
5074 that has been marked No. 60.

Now with respect to the office and warehouse, No. 9001, is it a fact that no costs were included in the Federal Power Commission original cost exhibit for that warehouse and office?

A. No, sir; that is not the fact.

Q. For that warehouse and office, costs were included in the Federal Power Commission original cost exhibit, is that not so?

A. Well, certain costs were included, but not all of the costs were included.

Q. Well, it is not an accurate statement to say, is it, that no costs were included in the Federal Power Commission original cost exhibit for office and warehouse, No. 9001?

A. No, but that is qualified by saying——

Q. (Interposing). Just a minute——

Mr. Milde. (Interposing.) Let him finish his answer.

Mr. Slaff. We will get his qualifications. Let's take it step by step.

By Mr. Slaff:

Q. That statement, as I gave it to you, is not an accurate statement, then; that is to say—let me repeat it again.

Trial Examiner. I assume that you are making the statement, you are not referring to a statement that he has made elsewhere?

5075 Mr. Slaff. I will come back to the statement that he has made.

By Mr. Slaff:

Q. It is not an accurate statement to say that no costs are included in the Federal Power Commission original cost exhibit for the Hope Natural Gas Company, Office and Warehouse No. 9001, in the Bridgeport District, is it?

A. Well, as far as you have gone you are correct. Of course, in my testimony yesterday, I said that part of the costs were not included. That was, I believe, the answer to the first question asked.

Q. Now also with respect to the Drilling Tool Shed, No. 9003, the original cost exhibit of the Federal Power Commission does include costs for that Drilling Tool Shed, does it not?

A. Well, it includes incomplete costs.

Q. Well, it does include costs for that Tool Shed, does it not?

A. Yes, it does.

Q. All right——

A. (Interposing.) Certain costs.

Q Again with respect to that Drilling Tool Shed, No 9003, in the Bridgeport District, it is inaccurate to say that there are no costs included for that Drilling Tool Shed in the Federal Power Commission original cost exhibit?

A. I didn't say that.

5076 Q. Isn't that correct?

A. No, sir.

Mr. Milde. I object to that question, because nobody has made that statement except Mr. Slaff.

Mr. Slaff. No one except the exhibit on its face, that is all.

Mr. Milde. The statement is not made in the exhibit, and we are not cross-examining Mr. Antonelli about the correctness or incorrectness of statements made by Mr. Slaff. It is perfectly apparent that when it says Office and Warehouse, No. 9001, and lists items of property that are excluded, that you can't take part of the description and say—is that an accurate or inaccurate statement?

Trial Examiner. It also says there, "All material and construction costs"; what does that mean?

Mr. Milde. For this concrete block wall, et cetera, as contained in Office and Warehouse No. 9001.

Mr. Slaff. It is thoroughly patent to me, Mr. Examiner, that this is a completely misleading exhibit beginning with column 1, and I think I have a right to develop that.

Trial Examiner. Well, the way I would read this, the way I would interpret it would be that it included all of the Office and Warehouse No. 9001, and these items set out under that are simply specifications of what might have gone into it. I certainly would not conclude that it only meant a portion

5077 of that office and warehouse.

Mr. Milde. Well, I think if Mr. Antonelli hasn't made that clear already, he should, because it is those parts of these buildings for which all construction and material costs are excluded.

Mr. Slaff. It seems perfectly patent that it hasn't been made too clear up to now. If the Examiner understands it as he stated, and as I understood it until I started to get into the

underlying work papers and found that the original cost exhibit of the Federal Power Commission did include costs for many of the items set out in column 1.

TRIAL EXAMINER. As I understand it now, then, the first line in each of these items represents the structure concerned, and then below that you set out in more detail the items which were not included, is that it?

Mr. MILDE. That is right. Take that first item. Now Office and Warehouse No. 9001, the following parts of that building, as it were, were not included in the Commission examiners costs, but were included by Mr. Antonelli, the concrete block wall, plasterboard, millwork, plumbing fixtures and electric lights, and the exclusion there is all material and construction costs for those parts of the building. Now if you will run down to, say, the Dresser Coupling Shed, No. 9056, which is the second item under the Buffalo District, there the amount excluded is the
5078 building itself, you see "One story, wood frame structure, with rolled roofing and wood sheathing sides". That means that in that case the entire building was excluded. Frankly, it was difficult to set these matters up, but we did it in a way that we thought would give as nearly a complete story as we could, and you really have to read each one of these subsidiary items to know what part of the cost of a building, whether it was all or part, has been included by Mr. Antonelli and excluded by the Commission examiners.

Take the bottom line of this page, Screw Coupling Shed, No. 9058, and there the description is a description of the entire building, "One story, wood frame structure", and so on, whereas, if you go up to the Oil House, No. 9002, the second item, the omitted parts there are the millwork, electric lights, and so on.

Is that a correct statement, Mr. Antonelli, of the way this item is set up?

The WITNESS. That is entirely correct, that is exactly what we did.

TRIAL EXAMINER. It seems to me that under this arrangement here, you would have set up, under this first item, the entire original cost of this structure as shown in Exhibit No. 20. That would appear in column No. 1, or No. 2, rather, and then over here you would have shown the amount included by the F. P. C. original cost exhibit and the amount excluded, and
5079 explain the amounts which were excluded.

Mr. MILDE. Well, that would have meant practically a reproduction of these 70,000 work sheets that we have.

Trial Examiner. Well, it doesn't seem to me that it would. Of course, I don't know as we are accomplishing anything by arguing about it, but if you put this concrete block wall, and so forth, over in the last column, that would have made it clearer.

Mr. Milde. That might have been a better way to set it up. You don't always think of the best ideas first. I want the Examiner, however, to be perfectly clear what this exhibit shows on those structural items; those parts or all of the structures that have been omitted are described under the name of the structure. I think the only exception to that, that I should direct your attention to, is in the case of the lease and land accounts——

Mr. Slaff. (Interposing.) We will come to that. I would like to proceed.

Trial Examiner. Proceed.

By Mr. Slaff:

Q. Do you agree, Mr. Antonelli, with Mr. Milde's testimony?

A. Yes, sir; I do.

Q. Now with respect to the items on page 72, then, as he explained it, taking the Tool Shed listed in the Buffalo
5080 District, one story, wood frame structure, et cetera, that indicates that no costs were allowed for in the Federal Power Commission exhibit, is that right?

A. No; there is another item, 9056 seems to be a complete building.

Q. I am just taking them one by one.

A. Oh.

Q. Now with respect to No. 9055, because there is that description, we are to understand that no costs were allowed in the Federal Power Commission exhibit of that building, is that right?

A. That is right.

Q. The same is true with respect to 9056, is that correct?

A. Yes.

Q. 9057 also?

A. Yes, sir.

Q. Go over to 9060 on page 73. That is described as a one story, wood frame structure with rolled roofing, et cetera. Were any costs included in the Federal Power Commission original cost exhibit for that item?

A. No, sir.

Q. None whatever?

A. No, sir.

Q. Where is that listed in your working papers?

5081 A. It is listed on page 12, book 137.

Q. Is it not a fact that $325.51 of the cost of that storage shed was included in the Federal Power Commission original cost exhibit?

A. I can't say offhand unless I refer to my papers.

Q. You just said offhand a minute ago that no cost was included, didn't you?

A. Yes, sir; I did, according to this.

Q. Now what do you say on reconsideration?

A. I don't know what is in the papers.

Q. Go to your working papers.

A. I haven't got those working papers with me. I will produce the working papers and check it up.

Q. Will you check that up?

A. Yes, sir.

Q. Tell us if that is not a fact with respect to storage shed No. 9060.

A. 9060 or 9059?

Q. 9060.

A. I don't think there is anything included in the Federal Power Commission exhibit for this particular shed; but I would like to check it.

Q. By all means.

A. I will.

Q. Now let's go to the leases.

5082 From pages 4 to 30 in your Account No. 330-2, Natural Gas Producing Leaseholds, Operated, how many leases do you show on those 26 or 27 pages?

A. I haven't counted them.

Q. Well, I total about 2,650; does that sound about right to you?

A. Well, I will check it up. Yes, that is about right.

Q. Now you show, do you not, obtaining costs for each one of those leases?

A. No, sir.

Q. As excluded in the Federal Power Commission original cost exhibit?

A. No, sir; I don't.

Q. Well, what do the words "Obtaining cost" mean in line 1 of page 4, column 7?

A. As I testified yesterday, I said either obtaining or recording or abstracting, and an occasional consideration.

Q. With respect to Lease No. 578, did you include, as shown on page 4, obtaining costs?

A. No, sir; in that case I included $17.20 for abstracting cost. That is all that is included in that particular lease.

Q. What about lease 1897?

A. 1897?

Q. Yes.

5083 A. I don't have that lease, but I can look it up.

Q. What about 3977?

A. On 3977, I have costs of obtaining of $8; and I have costs of abstracting of $17.20; and costs of recording—$1.35.

Q. And for that lease 3977, you have no consideration?

A. Well, the consideration was capitalized, it wasn't necessary to include the consideration here.

Q. Then the consideration was not excluded in the Federal Power Commission original cost exhibit with respect to lease 3977, was it?

A. No; I never said it was.

Q. Well, your exhibit shows it as excluded in the Federal Power Commission original cost exhibit, does it not?

A. Well, this is only a brief description——

Q. (Interposing.) You mean a brief misleading description?

A. No; it would have been a tremendous typing job to list every cost separate, Mr. Slaff.

Q. Well, it is a tremendous job, Mr. Antonelli, I want you to understand, for me to have to go through this with you and make it understandable and correct.

A. I went over it with Mr. Pace. He came down to Clarksburg and we spent two days with him, and he examined the books, and it was perfectly clear to him that these were only part costs.

5084 Q. Mr. Antonelli, did you tell us in your direct testimony that the consideration cost of Lease No. 3977 had been included in the Federal Power Commission original cost exhibit?

A. Yes, sir; a general statement was made to that effect.

Q. With respect to Lease No. 3977, which, as far as your Exhibit 60, page 4, indicates, the consideration therefor was excluded in the Federal Power Commission cost exhibit.

Now, with respect to that specific lease, did you tell us, anyplace in your direct-examination, that the consideration cost for

that lease was included in the Federal Power Commission original cost exhibit?

A. Well, nobody asked me. No; I didn't.

Q. Well, were you holding out because nobody asked you?

A. Oh, no.

Q. Well, did you go over your testimony in advance with your counsel?

A. Yes.

Q. You knew what he was going to ask you?

A. Sure.

Q. And you knew in advance, before you got on the stand, didn't you, that you were not going to tell us with respect to any of these specific leases here, which your exhibit shows costs to have been excluded in the Federal Power Commission original cost exhibit, that those costs were not excluded?

A. Well, as a matter of fact, I did, now when I come to
5085 think of it. I gave you the total amount for this cost to be $49,000, of which only $15 was consideration. Therefore, anyone, I assume, would understand that it cost more than $15 to purchase or to acquire these leases. I did say that; I did say that yesterday.

Q. And it is on the basis of that answer that you—in your mind, at least—justify stating that consideration costs for various of these leases are shown to be excluded in the Federal Power Commission exhibit, is that right?

A. Not only on that statement. I explained this exhibit to Mr. Pace, and I also made a statement yesterday which showed that the omitted costs were only part costs or the direct material and labor costs that were not capitalized on the Company's records.

Q. Now you show recording costs as excluded in the Federal Power Commission exhibit for each and every one of these 2600 or more leases, do you not, in your Exhibit No. 60?

A. No, sir; I don't.

Q. Well, do you show in line 1 of page 4 that recording costs for the three leases there shown were excluded in the Federal Power Commission original cost exhibit?

A. Not in this exhibit, it is shown on page 21.

Q. Turning to page 4——

A. (Interposing.) Yes, I have page 4.

Q. Does that show that the recording costs for the three
5086 leases in the first line were excluded in the Federal Power Commission cost exhibit?

A. No, sir; it doesn't.

Q. It does not?

A. Not on this page; no, sir.

Q. Well, now, are you looking at column 7?

A. I am looking at column 7.

Q. What is the heading?

A. It says, "Obtaining, recording"——

Q. (Interposing.) No, the very top heading.

A. "Excluded in F. P. C. Original Cost Exhibit."

Q. That it right.

Now that means, I take it, excluded in Federal Power Commission original cost exhibit, is that right?

A. That is right.

Q. And underneath that heading are set out the items which were excluded in the Federal Power Commission original cost exhibit, is that not correct?

A. Yes, sir; that is correct.

Q. All right. Now with respect to the three leases in the first line on page 4, according to column 7 of your Exhibit 60, page 4, recording costs for those three leases were excluded in the Federal Power Commission original cost exhibit, isn't that so?

A. That is correct, but——

5087 Q. (Interposing.) Just a minute, we will get to your explanation.

Mr. MILDE. Let him finish now.

Mr. SLAFF. I have no objection to his making an explanation. But I would like to have him make it in an orderly fashion at the right time.

Mr. MILDE. This is the point that he has selected to make that explanation.

TRIAL EXAMINER. You want to strike out your original statement, "That is correct"?

The WITNESS. No, I would like to qualify my statement, Mr. Examiner.

TRIAL EXAMINER. You don't mean, then, that it is correct; you mean it is correct with qualification?

The WITNESS. That is right.

I would like to say that yesterday I explained that the costs excluded by the Federal Power Commission were either obtaining or recording or abstracting and an occasional consideration.

I was very particular about that, and the only reason that we did it this way was to save time and save a typing job. Other-

wise, we would have had about 10,000 pages here in this report. That is the only reason we did it the way we did.

By Mr. Slaff:

5088 Q. Are you all through with your qualification?

A. Yes, sir.

Q. Do you want to make any more? Feel free to if you want to.

A. No; that is all.

Q. Now we have got your answer complete, then?

A. Yes, sir; you have.

Q. Now then, to get back to the original question.

As far as the face of this exhibit is concerned, page 4 of Exhibit 60, your represented in the exhibit that with respect to the three leases shown in the first line, the recording costs were excluded in the Federal Power Commission cost exhibit, isn't that correct, Mr. Antonelli? Isn't that a fair statement?

A. Well, not the way I look at it.

Q. Looking at the face of the exhibit? Look at that for a while, will you, and tell me if that isn't a fair statement that I have made to you?

A. I assume that someone not familiar with these pages might take it that way.

Q. Well, isn't it a fair statement, Mr. Antonelli, that anyone looking at this exhibit, looking at the exhibit itself, would find that you were representing in the exhibit that recording costs for the three leases set out in the first line of that page had been
5089 excluded in the Federal Power Commission original cost exhibit; isn't that a fair statement of what any reasonable person, looking at that exhibit, would understand, Mr. Antonelli?

A. Yes, sir.

Q. And the same is true, Mr. Antonelli, is it not, with respect to all the other leases set out on that page, that is to say, that any reasonable person looking at your exhibit would understand that you were representing that the recording costs for each and every one of the 2,600 leases contained in those pages 4 to 30, had been excluded in the Federal Power Commission original cost exhibit; isn't that so?

Mr. Milde. Well, now; I object to that, because that isn't pertinent to this case. It isn't a matter of whether any reasonable person——

Mr. Slaff (interposing.) It is pertinent to the fact that this is the most misleading exhibit, or one of the most misleading, that has been put in by the Company.

Mr. Milde. May I finish?

Trial Examiner. Yes, proceed.

Mr. Milde. This exhibit is part of a great mass of testimony on the matter of costs of leases and other things. It fits into the Company's exhibits and the Commission examiners' exhibits, and it is perfectly apparent, when those are all compared, precisely what is shown here.

Mr. Antonelli read the dollar amounts yesterday. We
5090 are not concerned here whether somebody to whom we
handed this exhibit, on the street, even if he was a reasonable man would have any idea what it was about, he probably wouldn't. But fitting into the picture with all these other exhibits that are in here, which show that the Commission examiners have allowed so much for operated leases, and Mr. Antonelli claims so much, and there is a difference, his explanation as to what the dollar amounts are included in these things yesterday, it is all perfectly clear in the record and there was not the slightest attempt on the part of the Company to misrepresent the situation.

Now unfortunately, on some of these exhibits you don't always get them into the precise technical shape you would like, and I am sure Mr. Slaff wasn't misled, and we got this exhibit up in a hurry for cross-examination, and if we were doing it again we probably wouldn't do all this ditto marking, and that is why I had Mr. Antonelli explain yesterday that in the case of these leases, with respect to various leases, sometimes it was the recording cost and occasionally the consideration cost, and the abstracting cost and occasionally the obtaining cost, and he read the dollar amount of each of those in the record, and that was for the purpose of trying to make clear that we didn't intend by this exhibit to represent—and the Commission's staff knows that—we didn't intend to represent, in the case of each and every one of
5091 these leases, that all of these costs were excluded.

I think Mr. Slaff is right in saying that if you just presented it to somebody who just read the English language, without knowing anything about this case, he might get a wrong impression, and I had hoped yesterday that Mr. Antonelli had cleared that up.

In the case of leases and land accounts, some costs, of course, have been included by the Federal Power Commission exhibit, that is shown by this exhibit, it is shown by the comparison exhibits that are in this case; it is shown by our exhibits.

And this inventory of omitted items is intended to show the character of the excluded costs, and I don't want the Examiner

to think that we intended to make anything but a perfectly frank statement as to what this was, and I hoped that it had been clarified yesterday when I had Mr. Antonelli tell what the dollar amounts were.

My objection is based on the ground that to ask Mr. Antonelli whether a reasonable man would look at this and draw certain conclusions, just isn't pertinent to this case.

If he wants to ask whether he thinks somebody who knows all about these other exhibits would be misled, that might be pertinent.

Mr. SLAFF. As matter of fact, Mr. Examiner, this exhibit is thoroughly misleading, and it wasn't until last night,
5092 when I started trying to reconcile parts of his testimony
with this exhibit, that I become aware first of the fact that apparently all these costs set out as excluded were not as had been represented in the exhibit. Up until that time—and I made, I think, a reasonably careful check of the exhibit—I had taken it for granted that they were as represented here.

Mr. MILDE. Well, I think, that is perfectly understandable, because Mr. Slaff hasn't been in this case from the beginning, and he doesn't know what these other exhibits are. I think if he were coming into it fresh, he might well have the viewpoint of the man on the street, and not——

Mr. SLAFF. (Interposing.) Let's get the viewpoint of the man who purports to be a little familiar with the case.

TRIAL EXAMINER. Objection overruled.

Mr. SLAFF. Can we have the question, Mr. Reporter?

(The question was read by the reporter as follows: "Q. And the same is true, Mr. Antonelli, is it not, with respect to all the other leases set out on that page, that is to say, that any reasonable person looking at your exhibit would understand that you were representing that the recording costs for each and every one of the 2,600 leases contained in those pages 4 to 30, had been excluded in the Federal Power Commission original cost exhibit; isn't that so?")

The WITNESS. It is a little misleading, I will admit that.

5093 By Mr. SLAFF:

Q. And the same is true also with respect to Account 330-2, "Natural Gas Producing Leaseholds—Unoperated," as set out at pages 32 to 62?

A. Yes, sir; that is correct.

Q. Now with respect to these 2,600 leases, or thereabouts, set out at pages 4 to 30, for which you show obtaining costs for all of them, there were obtaining costs attached to only about how many, do you know?

A. The obtaining costs were attached only to the leases that were purchased from landowners, I can't say how many.

Q. About 300, wouldn't it be, instead of the 2,600 for which you show obtaining costs?

A. Well, I will tell you how many.

Q. How much did you use for the average obtaining cost?

A. $8.

Q. $2,400 was your total for obtaining costs?

A. That is about correct; yes.

Q. Now what was the average recording cost, approximately, do you know?

A. The average recording cost I would say amounted to maybe $1.50 or maybe $2. I can't tell—probably there were 400 recordings.

Q. Instead of the 2,600 for which recording costs are shown as excluded by the Federal Power Commission exhibit,
5094 original cost exhibit, there are only 400, approximately?

A. That is right.

Trial Examiner. What was the total amount of that cost?

Mr. Slaff. $704.

The Witness. That is for operated leases.

By Mr. Slaff:

Q. And, of course, with respect to all those numberless leases for which you shown consideration costs, probably only a very, very few of those actually had any consideration costs which were excluded in the Federal Power Commission original cost exhibit; that is also correct, is it not?

A. I think there was only one lease. I am not quite sure.

Q. Well, if there was only one lease, Mr. Antonelli, or only two leases, that had any consideration cost excluded by the Federal Power Commission exhibit, why did you show consideration costs excluded by them for every one?

A. Well, this was only a general heading, Mr. Slaff, and I probably should have made it a little clearer. I agree now with you that it is not as clear as it should have been.

Q. Let's go a little further into that. You show a consideration cost for all the leases set out on pages 4 to 11 of your exhibit, don't you?

A. 4 to 11?

Q. Yes.

5095. A. Yes, sir.

Q. Then at pages 11 to 20, you drop consideration costs as having been excluded in the Federal Power Commission original cost exhibit, isn't that so?

A. No; that must have been a mistake in typing, that is the first time I noticed that it was dropped; or maybe there wasn't any consideration for those particular leases. I will have to check that.

Q. Well, we know there wasn't any consideration for those?

A. Yes.

Q. And we know that there wasn't any consideration for all but two of the rest of the 2600, isn't that so?

A. I will have to check that statement. Maybe a consideration did appear to the extent of maybe a dollar per lease.

Q. If it was a dollar per lease, there couldn't have been any more than 15, could there?

A. I will have to check that.

Q. Let's have an answer right now. The total consideration cost of these leases was $15, wasn't it?

A. That is right.

Q. Now considering a dollar lease, that means that the consideration cost, excluded as you claim by the Federal Power
5096 Commission exhibit, applied to only 15 of the leases at a maximum, isn't that so?

A. No; it may be 50 cents.

Q. Well, we will get to the 50-cent basis. At a dollar a lease consideration——

A. (Interposing.) That will affect 15 pages.

Q. 15 pages or 15 leases?

A. 15 pages, because maybe each lease might be on a separate page.

Q. Now, let's start all over again, Mr. Antonelli, so you understand my question.

Let's begin from the beginning. You told us there were $15 of consideration costs excluded by the Federal Power Commission's original cost exhibit, is that right?

A. Yes, sir.

Q. Now you don't want to change that statement, do you?

A. No, sir; I don't.

Q. Now you told us a little earlier this morning that maybe that applied to a couple of leases, one or two leases, and you apparently do want to change that statement now, is that correct?

A. Yes; I am not quite sure now when I see all the consideration appearing on certain pages and not on other pages. I would like to change my answer.

Q. Do you know of a consideration for a lease of 50 cents in the Appalachian field?

5097 A. No; well, I can't say offhand.

Q. Do you know of any?

A. Yes, I think so. They get some for nothing.

Q. But did you ever hear of a consideration of a half a dollar being offered?

A. Oh, yes; sure. I think you will find some in our working papers.

Q. And a quarter.

A. Yes, and 5 cents.

Q. You did?

A. Yes.

Q. Do you have any distinct recollection, or are you just plucking things out of thin air?

A. No; I am talking from records. I am pretty certain that I found some 5-cent considerations.

Q. Now of course you testified that they got some leases for nothing?

A. There are some leases included in here that the Company paid just obtaining and abstracting and recording costs on.

Q. Now, getting back to your consideration of $15, you have no idea whatever of how many leases that applies to?

A. Not offhand; no, sir.

Q. Do you have any judgment?

A. No; there are too many leases, I can't guess it.

5098 Q. You mean that on that one thing you won't guess, is that right?

A. Not until I look at my papers, and then I will tell you the right answer.

Q. Now can you tell us why, after setting out, on pages 4 through 11, consideration costs as excluded in the Federal Power Commission original cost exhibit for all the leases up to the last five lines of page 11, you, from that point on, through the 15th line on page 20, did not show consideration costs as excluded? What occasioned the change?

A. Well, I can't answer that question offhand. I will look it up at noontime and look up the working papers, and I will be glad to answer the question, because anything I say now will be a guess.

It was done in a hurry, it might be that it was just a mistake, but I don't think it was a mistake. The other reason might be that the boys were certain that there was no consideration for those leases listed in this particular book, which is Book 22, and so they left that out. I am very certain that it was done on purpose, because, as you will notice, that is in Book 22.

Q. Yes; and it occurs in the middle of a page, and one thing or another?

A. Yes; there possibly wasn't any cost of consideration shown in this particular book, and therefore the boys left out the word "consideration."

5099 Q. Now then, will you check that and find out the reason for it?

A. Yes, sir.

Trial Examiner. As I understand your explanation, these are not general statements over here in column 7, but are applicable to actual situations, is that correct?

The Witness. No; they are general statements, but apparently Book 22—and by "Book 22" I mean the Original Cost 22, where all those costs are set up in separate columns—did not show any consideration expensed.

Trial Examiner. And those in book 21 do show consideration expense?

The Witness. Yes.

Mr. Milde. That is for one or two leases?

The Witness. That is right, that is apparently what has happened.

Trial Examiner. The difference, then, is with respect to one or two leases?

The Witness. Yes; we are just talking about $15 now.

By Mr. Slaff:

Q. Was the rest of this exhibit prepared with the same care, Mr. Antonelli, as went into the preparation of that part of the exhibit that deals with Account No. 330–2?

A. Well, the rest of the exhibit shows definitely what the items are. This was the only one that we had a general

5100 statement on, on account of the large typing job.

Q. That isn't the question. The question I put to you is: Did the people who prepared this exhibit, and you in supervising the preparation of the exhibit, devote any more care to that portion of the exhibit that deals with other accounts, than you did to that portion of the exhibit that deals with Account 330–2?

Mr. Milde. I object.

Trial Examiner. The objection is overruled.

The Witness. I would say that the whole exhibit was prepared with great care. We didn't try to do one account better than the other account, and it was all prepared with great care.

By Mr. Slaff:

Q. I mean, whether it was prepared with great care or not is perhaps something that someone else other than you and I will judge, but at least it was all prepared, in your judgment, with the same degree of care throughout?

A. Yes; there wasn't much to do but record these costs from the original cost books. There wasn't any trick involved in summarizing these books.

Q. Of course, whether or not there was a trick involved is also another question?

A. Well, there wasn't.

Q. Then, as I understand your answer, and I don't know
5101 whether you answered my question, but as I understand it
you didn't put any special care on one part of the exhibit as against another, it was all prepared in the same general way?

A. That is right.

Q. Now will you turn for a minute to page 356. You show there, do you not, in the first four items, expenses in connection with Line H-2?

A. Yes, sir.

Q. When was that line laid?

A. The line was laid in 1902.

Q. When was the first amount shown in column 2, of $219.60, spent by the Hope Company?

A. In December 1902.

Q. And what is the voucher reference on that?

A. M-225, 1902. The amount is $15.07.

Q. Now is the total of $219.60 made up of several items?

A. Yes, sir.

Q. All expended in December of 1902?

A. No, sir; the first one was in connection with freight and it happened to be in December 1902. The amount was $15.07.

Q. All right, when was the next?

A. The next one was——

Q. (Interposing.) And by the way, to what account was that amount charged?

A. Well, it was charged to expense, I don't know the
5102 account.

Q. It was charged to an operating expense account number?

A. It wasn't capitalized, it was charged to expense.

Q. Just a minute, Mr. Antonelli. Was it charged to an operating expense account?

A. I think it was; yes. I don't know, but I am certain it was; I would have to check it.

Q. Well, will you check it and tell us to what operating expense account that amount was charged?

A. Yes, sir.

Q. Now when was the next item going into that total of $219.60?

A. The other item pertains to a labor expense and has a voucher number H-126, 1902, for $4.34, probably in August.

Q. Of what year?

A. They are all 1902.

Q. Tell me this: Were all of these items going into the total of $219.60 charged to operating expense accounts?

A. I think they were; yes.

Q. Now going to your item of $18,323.64, when was that incurred?

A. Well, I think that was incurred in 1905 or 1906, I am not exactly sure of the date, but it was two or three years after the line was laid.

Q. And what was the nature of the work in connection
5103 with which that expense was incurred?

A. Well, that was in connection with clamping this 18-inch line going to Cleveland.

Q. And to what account or accounts were the expenses that went to make the total of $18,000, charged?

A. I think they were charged to operating expense. I will have to look that up this noontime, and I will let you know.

Q. That is made up, is it not, of a great number of vouchers for small amounts?

A. No; I think that is only one voucher, but I will check it.

Q. Will you check that?

A. Yes.

Q. And will you also check the specific accounts so that you can tell us the specific accounts to which the expenditures were charged?

A. Yes.

Q. Now going to the next item on that page, 639 feet of 18-inch pipe of line H-2, when was the expense in connection with that incurred?

A. Well, I can't say that offhand, I will look it up. I can't remembe all of these things, and I don't have my details here.

Q. All right, check that, please.

5104 Will you also check the item of $9,673.62?

A. I can tell you something about that.

Q. All right.

A. The $9,673.62 represents the cost of laying an additional river crossing.

Q. When?

A. I am sorry, I will have to look that up. I haven't got the information here.

Q. And you will tell us when, and also what accounts the items were charged to?

A. Yes, sir.

Q. Now going to page 357, and taking the largest item on that page, Clamps on pipe line H-2, the next to the last item, that shows an expenditure of $15,638.63, does it not?

A. Yes, sir.

Q. When was that expenditure made, do you know?

A. It was made, I would say, two or three years after the line was built.

Q. Made about 1906, wasn't it?

A. Somewhere around there, 1905 or 1906.

Q. And do you know whether or not that was charged to Account No. 2, repairs to lines?

A. No, I don't, but I will be glad to check it.

Q. You will verify it?

A. Yes.

* * *

5107 Peter Antonelli resumed the stand and testified further as follows:

Cross-examination (resumed) by Mr. Slaf:

Q. Now, Mr. Antonelli, in respect to the items we have been discussing on pages 357 and 356, are there specific vouchers in back of each of the expenditures there shown?

A. There are specific vouchers for the amount of approximately $58,000 out of $103,000 not included in the Federal Power Commission Exhibit 57.

Q. Are those specific vouchers for material costs or for construction costs, or for both?

A. They are for both. $15,638.63 is for equipment costs, and the rest of it, I believe, is mostly for constructing river crossings and replacing river crossings, and so on.

Q. How much did you say was for material costs?

A. $15,638.63.

Q. With respect to the difference between the amount for which you found specific vouchers, and the $100,566 total
5108 shown on page 358, how did you determine that difference?

A. This difference represents construction costs for extensions of the lines listed on these two pages, namely, 356 and 357. The material for these extensions was capitalized, and we didn't have any trouble in finding it, and found out what date they were installed, and so on——

Q. (Interposing.) If I may break in without interrupting your train of thought, you say you had no trouble finding the material costs. Did you have specific vouchers for that?

A. Yes, sir; we did.

Q. Well, let's start all over again, then.

Tell me first off, out of this total of $100,566.82, for how much did you have specific vouchers?

A. Well, approximately $58,000, and about $45,000 we did not have vouchers for.

I was looking at page 357.

Q. All right, $102,962, right?

A. Yes.

Q. And for $58,000 you have specific vouchers?

A. That is right.

Q. That leaves?

A. $44,006.

Q. For which you have no specific vouchers?

A. Yes.

Q. Now with respect to that $44,000, how did you
5109 determine the amounts which went into that total?

A. That is just what I was trying to explain before you interrupted me.

Q. Well, the explanation didn't seem to me very clear.

A. I have to give this kind of an explanation.

By going to the capital account for the main lines, we found that the Company has capitalized the extensions of these lines that are shown at pages 356 and 357. This list repesents mostly exten-

sions of initial installations, and as I said, the material was capitalized and recorded on the Company's books.

However, the labor for construction of these lines was not capitalized; only the initial installation of the lines was capitalized. By that I mean that when the line was laid, they capitalized both the material and labor; but with additions they, as a rule capitalized only the material.

Therefore, there was no way for me to find the actual construction costs of this extension. Therefore, it was necessary for me to estimate these costs, and they were estimated, based on known costs for similar lines in about the same period.

In other words, we summarized all of the costs of 10-inch pipe—transmission line I refer to now—and found out that for a certain
period the cost might have been, say, 90 cents a foot, and
5110 we applied that 90 cents a foot against the 10-inch extension
lines that were shown in here. That gave us a result which was very conservative, because, as everybody knows, extensions cost more money than the initial installation, but that was the best we could do, so we used this conservative estimate.

Q. Did you add anything to the known labor costs?

A. No, sir; I just used them as I found them on the Company's records.

Q. Did you add 25 percent to the known labor costs in this connection, or in any other connection, in your exhibit?

A. I don't know what you mean by 25 percent overhead cost; I didn't add anything but the costs as I found them on the Company's records.

Q. Did you increase your labor costs, as found in the Company's records, by 25 percent in any case in the preparation of your estimates?

A. Well, I don't understand your question—which estimates?

Q. The ones that you are referring to now and those that were made in connection with Exhibit 60.

A. Are you referring to Account 353?

Q. I am referring now to any of the estimates made in Exhibit No. 60.

A. I thought you were talking about Account 353.

Q. Well, I am asking you a general question now.

5111 A. Well, I haven't added any overheads.

Q. I didn't ask you whether you had added any overheads. I asked you whether you had increased the cost of labor, as determined from your analysis of the company's records, by 25

percent in any of the labor estimates that you made in connection with the items shown in Exhibit No. 60?

A. No, sir.

Q. You did not?

A. No, sir; I haven't added any 25 percent to the Company's records, no, sir.

Q. All right, let's leave page 357 for a moment—we will come back to that—and let's turn to page 72 of your exhibit.

Have you that before you?

A. Yes, sir.

Q. The first item there is Office and Warehouse, No. 9001, Concrete block wall, et cetera—is that right?

A. Yes, sir.

Q. And an amount is shown of $442.44, is that right?

A. Yes, sir.

Q. How was that amount derived?

A. In this case of this Office and Warehouse, No. 9001, the incompleted costs for this building (and by "incompleted costs" I mean that part of these costs were found on the Company's
5112 records and capitalized, and the amount shown here was not capitalized and not allowed by the Federal Power Commission), we were unable to find the cost of the concrete block wall, plasterboard and millwork, plumbing fixtures and electric lights in any of the investment structure accounts. Therefore, we estimated in this case the material cost and the construction cost.

Q. And you estimated the material cost——

A. (Interposing.) By using, for the material costs, vouchers for exactly the same kind of materials, maybe the voucher would be exactly for the same materials, but I couldn't identify it; but for the same kind of materials that were expensed. In other words, they weren't capital vouchers.

That gave us the cost of the material.

Now as far as the labor is concerned, we estimated the labor using the performances, the Company's performances. Those performances were again determined by analyzing several compressing station structures where we knew the actual cost of installing or constructing these compressing station structures. We picked those stations because we were certain that the costs were complete.

Now in order to simplify the work, we developed unit costs using just ordinary performances which weren't applicable to this particular Company, but just ordinary performances.

Q. That is from the Company records?

A. No, not yet; I am coming to that.

5113 Now to these performances we applied the actual labor rates that the Company pays, and we got a unit cost. Then we applied those unit costs to the material, the quantity of materials for these stations that we knew the actual cost. Then we totalled them, then we divided this total into the total of the actual costs of the compressing station structure that we did know, and the percentage varied from 20 to 30 percent, or something like that. So we decided to use 25 percent.

In other words, we added 25 percent to this performance we had worked up to equalize them to the performances of the Company, and I think that is what you had in mind.

Q. After analyzing the Company's records and developing unit performances, and developing labor costs per unit, you then added 25 percent on top of that to the labor costs, did you not?

A. No, sir.

Q. Well, let's start again?

A. I didn't say that at all.

Q. You developed the material costs, did you not?

A. Yes, I developed the material costs.

Q. Then you proceeded to analyze the Company's records to determine your labor costs, right?

A. Yes; and I found——

Q. (Interposing.) Just a minute. And from that you

5114 determined the labor performances?

A. No, sir; I didn't; I didn't say that.

Q. Well, did you or did you not?

A. No.

Q. Were your labor costs developed as a ratio of material in any cases?

A. I don't know what you mean by "ratio."

Q. Mr. Antonelli, don't you know what a ratio is?

A. Well, not in this sense, no.

Q. Well, do you know what a ratio is, just a plain ratio?

A. Well, a ratio is a relation between one thing and another.

Q. Then you know what ratio is?

A. Yes.

Q. Did you develop labor costs as a ratio to material costs in any instance?

A. I found, in the case of compressing station installation costs, the relationship between the total construction costs and the total

material costs of the initial installation before retirement, to obtain the relation of labor to material; yes, I did.

Q. Then you did develop a ratio, you did develop labor costs as a ratio of material costs, is that right?

A. Well, not in the sense of the way you are saying it. I found out what was the relation, say, in a compressing
5115 station, between the labor and material. Say the relation was 25 or 30 percent. I used that as a basis in some cases to price certain items; yes.

Q. Now in what cases?

A. That is in the case of compressing station installation costs.

Q. Now what ratios did you develop?

A. Well, they vary according to the station and the year and the type of equipment, and so on. We didn't just take one ratio, we made sure that we got what was right.

Q. Let's confine ourselves for the minute to Office and Warehouse, No. 9001.

Did you determine your labor cost by the application of a ratio to your material costs?

A. No, sir.

Q. You did not?

A. No.

Q. Did you in the case of any item contained in Account No. 331-3?

A. Well, there are so many items, I don't know, but I don't think so. I can't say offhand, but I don't believe so. There might be an item here and there.

Q. Will you bring in Book No. 136 this afternoon?

A. Yes, sir; I will be glad to if it is here.

Q. Well, if it is not here, send for it.

5116 A. All right.

Q. Did you make a study, in connection with this and other items—and I am referring to 9001, Office and Warehouse—of the Company's labor performance, by years and by districts, from the Company's records?

A. I think we did, not in the case of this account, but I believe in the case of the Account for the Measuring and Regulating Structures.

Q. How did you determine the labor performance to estimate the construction cost of this Office and Warehouse, No. 9001, shown on page 72?

A. As I explained it—do you want me to explain it again?

Q. Well, you explain it.

A. We have developed unit costs. That was the basis of it.

Q. Did you develop unit performances for specific types of activity?

A. Yes, sir; we did.

Q. And was that from the Company's records?

A. No, sir.

Q. Now what was that from?

A. That was a general engineering performance, the general engineering performances that we use for estimating purposes——

5117 Q. (Interposing.) Well, weren't you developing Hope Company's costs and not general costs?

A. Yes; but you didn't let me finish. I was going to tell you what we did after that.

Q. Go ahead.

A. We got these general performances and we did that just as a matter of convenience. There were so many small items of this type, and we had to finish the job, the Company was pressing me for time, and I had to do something about it.

So that is why we used these general performances.

To these general performances, which was just hours, we applied the Hope Company's labor rates.

Q. Where did you get those labor rates?

A. Those labor rates came from the Company's payroll vouchers and the Company's records, the genuine labor rates paid by the Company. That is the second step.

After that we applied this performance—now we have complete performance, cost per foot for laying brick, or what not—we applied these performances to three stations for which we actually knew the installation costs, and we knew the quantity of material that went into these stations. Of course, that was as of the date when the station was built. We totalled it, and say that this station came to a certain amount of dollars for installation. That was on one hand.

On the other hand, we had the total cost for installation

5118 of these stations that I referred to. Now, dividing one by the other we found out that these general performances were 25 percent, on the average, higher than what the Company's performances were.

Therefore, we increased the cost 25 percent. That was done as a matter of saving time. I could have done it the other way and avoided all these arguments now.

Q. Well, after developing general performances, units of performance, to which you applied the Hope Company labor rates, you then increased the total dollars thus derived by 25 percent, is that correct?

A. That is in the instances that I used the estimate.

Q. For example, in connection with the Office and Warehouse, No. 9001, you developed, did you not, a material cost of $270.04, and then a labor cost, on your general performances, of $172.40, which latter amount you then increased by 25 percent, which gave you a total of $442.44; that is correct, is it not?

A. I don't know the amount, but we did substantially that in order to get the performances of the Company.

Q. And that was in line with your conservative policy, is that correct?

A. Absolutely; yes.

Q. Now while we are on that subject, will you tell us where in the System of Accounts of the West Virginia Commis-
5119 sion or the Federal Power Commission, you find authority for making such estimates in determining the original cost of a natural gas company's property?

A. Well, I——

Q. (Interposing.) Constructed by you?

A. I find it in the definition of original cost.

Q. Which one is that?

A. That is shown on page 5.

Trial Examiner. That is the West Virginia Code?

The Witness. It is both West Virginia and the Federal Power Commission.

Mr. Slaff. Page 5 of the West Virginia System of Accounts. The definitions are the same?

The Witness. Yes.

It says: "Original cost as applied to gas plant means the cost of such property to the person first devoting it to public service."

By Mr. Slaff:

Q. What does definition 10 say?

A. "Cost means the amount of money actually paid for property or services or the cash value at the time of the transaction of any consideration other than money."

Q. Where is there any specific authorization in the System of Accounts for making estimates?

5120 A. Well, there is at some place here. It is at some place on pages 48 and 49, it is a long time since I have looked at this book.

Q. Do you mean Account Instruction 2 (C)?

A. On page 38 it says, "Original cost under gas plant purchased"——

Q. (Interposing.) I am speaking now of original cost of plant constructed by the company.

A. Well, in order to get——

Q. (Interposing.) As long as you understand, go ahead and answer.

A. The only way to get the original cost is to get the full cost of the property, and if the full cost was not reported in the Company's books, we had to estimate it. I thought that was in accordance with the definition of original cost.

Q. Well, I asked you, Mr. Antonelli, whether you found any specific authorization for estimating the original cost of plant constructed by the utility, in the Uniform System of Accounts?

* * *

5125 "Q. Well, I asked you, Mr. Antonelli, whether you found any specific authorization for estimating the origi-
5126 nal cost of plant constructed by the utility, in the Uniform System of Accounts?"

The Witness. You refer to property constructed by the Company?

By Mr. Slaff:

Q. That is right.

A. I can't recall offhand. There might be something in the books, but I can't recall offhand as to property constructed by the Company, but it was evident that if I was attempting to get the complete costs of the property, and the amount of money the Company actually paid for this property, I had to do just what I did, and determine the full cost of these properties. There are no two ways about it, and that was my problem, to get the actual amount, the amount that the Company actually spent for these properties; and if I couldn't find the cost for certain negligible items, I estimated, and made my estimates based on Company costs.

Q. Well, it is a fact, is it not, Mr. Antonelli, that to the best of your knowledge there is no specific authorization in the System of Accounts for the estimating of costs of property constructed by the utility?

A. I don't know, I don't recall; I will have to refresh my memory about that.

Q. Will you do that and tell us?

5127 A. Yes.

Q. And it is a fact that as far as you know at this time, it is only with respect to the determination of original cost of property acquired as an operating unit or system that the estimating of such costs is permitted by the Uniform System of Accounts of the West Virginia Commission or of the Federal Power Commission, isn't that correct?

A. I don't know, I can't answer that question. I know that practically every company in the country making an original cost study, and not having the actual cost of the property constructed by the company, is using the same method I am using, and they had to estimate it, there is no other way to get it if it isn't on the books.

Q. In respect to this last answer of yours, do you mean that practically every utility company in the country, or most of them, that are making original cost studies, are following methods similar to yours?

A. They are trying to follow methods similar to ours, but some of those companies haven't got——

Q. (Interposing.) Which ones?

A. I can't mention companies; I don't know.

Q. Well, but you just told me that practically all of them were trying to follow the same methods that you have followed. Now would you please name five of those?

A. Well, I could not name five of those.

5128 Q. Can you name three?

A. No; I wouldn't like to mention any names.

Q. Don't be modest or reticent, Mr. Antonelli, this is a public record.

A. I do know——

Mr. Milde (interposing.) That is just the point.

By Mr. Slaff:

Q. It is a matter of public information, they all have to be filed with the Commission.

A. I know that they don't have the information.

Q. How do you know if you haven't investigated?

A. That is what they told me.

Q. Who told you?

A. Various men working on the jobs.

Q. What jobs?

A. Various jobs, original cost jobs.

Q. What original cost jobs?

A. Well, I am sorry, but I can't disclose names.

Q. Is it a confidential matter?

A. No; I am just giving you examples.

Q. Well, you haven't given us any examples, Mr. Antonelli, and I am asking you to name five of these original cost jobs that are being done where the same methods that you have used are being followed?

A. I said they were trying to follow.

5129 Q. That is right, where they are attempting to follow the same methods?

A. The Manufacturers Light & Heat Company is trying to follow the same methods, as far as I know now. It is hearsay evidence, because that is what they tell me they do. And the South Penn Oil, I think, is doing the same thing.

Q. Who else?

A. I thought some of the Philadelphia boys, the Philadelphia company.

Q. Is that the Pittsburgh Company?

A. Yes.

Q. Any others?

A. Well, I can't recall offhand.

Q. Are any of those jobs being done by Ford, Bacon & Davis?

A. No, sir.

Q. Now who told you, with respect to the Manufacturers job, that they were following generally the same methods that you followed?

A. Nobody told me, but I was down there examining some of the Company's records in regard to another matter, and I saw they were doing practically or approximately the same kind of work.

Q. And those three companies that you have named are all you can name at this time, is that right?

5130 A. Yes, sir.

Q. All right.

Now then, let's get back to the System of Accounts——

Trial Examiner (interposing). But you learned they were doing it this way before or after you did this job?

The Witness. Oh, after, way after. I mean, what they were doing is that they were analyzing vouchers and making unit costs, determining unit costs based on vouchers, and there was considerable estimating done because they didn't have the records. I have been to those companies in connection with other work, and I know they don't have records, and there is no way to get it from the company's records, except to estimate it.

By Mr. Slaff:

Q. Mr. Antonelli, hasn't the Hope Company, ever since it has been under the regulation of the West Virginia Commission, been required to keep its books on the basis of cost?

A. I don't know, I can't tell you.

Q. Mr. Antonelli, do you mean to tell us you didn't investigate that before you began your original cost—call it determination?

A. It wasn't necessary. What I did was that I prepared an accurate inventory of the Company's properties; then I went to the Company's records, I didn't care what kind of records
5131 they were, I was trying to find the actual cost of each item, how much the Company paid for these items. We wrote to the various predecessor companies and got the costs from them, and so on. I didn't care how the Company kept it on their books or what they were doing, that wasn't my job, I had a lot of other things to worry about.

Q. Let's see, you worried about the present System of Accounts, because you made your original cost study, as you tell us, in accordance with that System of Accounts, is that right?

A. I followed the general accounting principles set forth in this Code of Accounts, yes. I used the same account numbers and tried to classify the properties in the same order.

Q. What distinction are you making between following the System of Accounts and following the same accounting principles as are set out in the System of Accounts?

A. Well, as I tried to tell you, I set up the properties, classified the properties in accordance with the investment accounts shown in this book, and then followed the principles as to material and labor and overheads.

It states here that you should include with the material the labor, include its proportionate overhead and construction costs, and so on. I did all of that.

Q. Then you did follow, in making your original cost determination, the System of Accounts prescribed by the
5132 West Virginia Commission and prescribed by the Federal Power Commission, is that correct?

A. Yes, and also I followed the definition of original cost which says that the original cost is the full cost of the property.

Q. Well, let's see if I understand you. You didn't pick and choose out of the System of Accounts as to what you were to follow and what you were to disregard, is that correct?

A. Well, what I did——

Q. (Interposing.) No, Mr. Antonelli——

Mr. Milde (interposing). Let him explain.

By Mr. Slaff:

Q. Let me repeat my question, and you tell me whether you can answer it yes or no. Did you pick and choose out of the System of Accounts, certain parts thereof that you would follow, and certain parts that you would disregard?

A. No, sir.

Q. Now let's get to the next question.

A. Well, I would like to qualify my answer now.

Q. Go ahead and qualify it if you want to tell us you did pick and choose.

A. What I did, my first purpose was to determine the original cost, the full original cost of these properties.

5133 Trial Examiner. Regardless of what the System of Accounts said?

The Witness. That is right. I was asked to find out, to go to all records and everywhere and get the actual cost of these properties, how much money this company spent for these properties, and how much the predecessors paid for prior utilities. That was my first purpose.

Then I went to this System of Accounts and said—we are going to use this original cost for other purposes, setting up the books, maybe, in another form.

So in order to help, at least utilize part of this work for other purposes, we set it up using this Code of Accounts shown in here, and classified the property in accordance with this Code of Accounts, and included each item of equipment, each proportion of the installation cost and overheads, and so on.

That was all necessary for setting up the continuing property records. So I could kill two birds at the same time.

TRIAL EXAMINER. In other words, you first decided, irrespective of the System of Accounts, how much you wanted to set up, and then you used the System of Accounts so far as practicable in splitting it up and setting it up; is that the effect of your statement?

The WITNESS. Well, in effect, that is correct. My first reason was to get the original cost of these properties.

5134 By Mr. SLAFF:

Q. Then it is a fact, is it, that in your original cost determination, as you ultimately came to it, you did disregard certain of the portions of the Uniform System of Accounts prescribed by the West Virginia and the Federal Power Commissions?

A. Well, I think there is just one paragraph here where it says about not intended to estimate. I didn't pay much attention to that because it just didn't mean anything to me. How could you determine original cost if you couldn't estimate? It just couldn't be done. If you had to get the total original cost, you had to estimate.

Q. In other words, are you referring to Utility Plant Instruction 2 (B) which states that the cost of the utility of its utility plant shall be ascertained by analysis of the utility's records?

A. Yes.

Q. That instruction in the System of Accounts you disregarded; isn't that correct?

A. Where is that?

Q. At page 48 of the West Virginia Code of Accounts and page 37 of the Federal Power Commission Uniform System of Accounts.

A. Yes; that is right.

Mr. SLAFF. Read the question and the answer, will you, Mr. Reporter?

5135 (The record was read by the reporter.)

Mr. MILDE. I wonder if you won't be fair to the witness and tell him whether you mean all of Instruction 2 (B) or one sentence of it, or what?

Mr. SLAFF. Instruction 2 (B). If he wants to qualify it, let him go ahead and qualify it. He is perfectly able at qualifying, as he has demonstrated this morning.

Do you want to qualify your answer, Mr. Antonelli?

The WITNESS. There isn't anything to qualify. I said I determined the original cost of these properties, and I followed.

this Code of Accounts as much as possible, except that I estimated all of the items that I couldn't find in the Company's books or expensed.

* * *

5136 PETER ANTONELLI resumed the stand and testified further as follows:

The WITNESS. Before we start, I would like to make a correction here to your last question.

Mr. SLAFF. Go ahead.

The WITNESS. You asked me if I had disregarded Instruction 2-B in this new code of accounts and I would like to make it clear that the only portion that was disregarded is the last sentence starting with "It is likewise not intended that adjustments shall be made," and so on.

Cross-examination (cont'd) by Mr. SLAFF:

Q. Well, then, you did pick and choose as to what parts of the system of accounts you would follow and what part of this system you would not follow. Is that right?

A. Well, I determined the original cost.

Q. No, no that isn't the question I asked you. Mr. Antonelli. The question I asked you is this: It is a fact, is it not, that you did pick and choose as to what part of the system of accounts you would follow and what part or parts you would disregard?

5137 A. Well, the only part that I disregarded is the part that I just mentioned.

Q. And that was a deliberate policy of disregarding that portion of the system of accounts. Is that right?

A. Well, if I hadn't done that, I couldn't have determined the original cost correctly.

Q. That is not the question, Mr. Antonelli. The question is this: Your disregard of that portion of the system of accounts was a deliberate policy adopted by you in making your determinations. Isn't that so?

A. Well, I disregarded that part; yes.

Q. Well, then, it was a deliberate policy which you adopted ——

A. It wasn't a policy.

Q. Just a minute. In making your determination was it not?

A. Well, I will say yes, then.

Mr. MILDE. Mr. Slaff, Mr. Antonelli can report on those questions that you asked him to get at noon.

By Mr. SLAFF:

Q. I think we might get that into the record now, if you have the information.

A. Where are the large books?

(Document furnished witness.)

By Mr. SLAFF:

Q. Have you during the noon recess, Mr. Antonelli,
5138 checked certain matters which were discussed this morning
and which you now wish to report on? If so, will you go ahead?

A. Yes, I did. Now, in connection with Account 353, Mains, you asked me in reference to the first item pertaining to Line H-2, $219.60. You asked me as to when those charges occurred and what account they were charged to. The charges occurred in 1902 and 1903 and were charged to Account 11 and Account 14.

Q. And what are Accounts 11 and 14?

A. Well, 11 is conduct. It is named "Conducting-Maintenance" and 14 is "Conducting-Telephone."

Q. Did you say "conducting"——

A. (Interposing.) Conducting, c-o-n-d-u-c-t-i-n-g, conducting.

Q. Does that mean operating, maintenance?

A. Yes.

Trial EXAMINER. Those are West Virginia account numbers, are they?

The WITNESS. These are company accounts, that is way back in 1902 and '3.

Mr. MILDE. There weren't any West Virginia account numbers until 1923.

The WITNESS. The next one was in connection with the next item, Line H-2, showing $18,323.64.

5139 Mr. MILDE. What page is that on?

The WITNESS. Page 356.

That charge occurred in 1906 and it was charged to Account No. 2.

By Mr. SLAFF:

Q. And what was that account?

A. Repairs to Line. The next item is in connection with 639 feet of 18-inch pipe in Line H-2 amounting to $1,245.10.

Mr. MILDE. You mean the construction cost?

The WITNESS. The construction cost—I was coming to it—of 639,000 feet of 18-inch pipe.

By Mr. Slaff:

Q. How many feet?

A. Six hundred thirty-nine feet. Of this footage 316 feet were constructed in 1937 and 323 feet in 1938. No cost was found on the company records.

Q. No cost for what was found?

A. For the construction of these 639 feet.

Q. Yes; and to what account?

A. I don't know. I had to estimate it.

Q. I see. That $1,245.10, then, is an estimated cost, not a voucher cost. Is that right?

A. That is correct, yes.

Q. All right.

5140 A. The next amount is in regard to $9,673.62. That is for the construction of river crossing that took place in 1919 and it was charged to Account 21-D and 23-B.

Q. 21-D?

A. And 23-B.

Q. 21-D is maintenance of transmission line equipment. Is that right?

A. Well, it is marked "Dredging."

Q. Well, what does the account cover?

A. As far as I can determine it just says "Dredging."

Q. Well, is it a subaccount of any other account?

A. It is a maintenance account.

Q. Yes. And what about 23-B? What is that?

A. Well, it is called "Labor"; again maintenance, transmission and labor.

Mr. Milde. I thought you said that figure was 1929. Did you read it 1919?

The Witness. Did I say 1919?

Mr. Slaff. You did.

The Witness. I am sorry, it is 1929.

The next item shown on page 357 pertains to the claims on Pipeline H-2 and the amount of $15,638.63. This charge occurred in 1906 and it appears under Account No. 2, "Repairs to Line."

By Mr. Slaff:

5141 Q. I think that covers what you are requested to furnish with respect to Account No. 353, does it not?

A. Yes, sir.

Q. Is there anything else you have to report on now?

A. Yes, sir; in connection with one of the structures that appears at page 73, I think.

Mr. Milde. What page?

The Witness. Page 73. That was in connection with Building 9,060.

By Mr. Slaff:

Q. That is right.

A. I looked up this building in my original costs and I have this original cost determination book in front of me and the charge to that building was not included in the Federal Power Examiner's Exhibit 57.

Q. May we have your work book that you are looking at now, please?

A. Do you want to see it?

Q. Yes.

(Book furnished Commission's counsel.)

By Mr. Slaff:

Q. Your work book shows, does it not, for that building, cost capitalized for company's books of $325.51?

A. It shows the amount of $325.51 under the cost capitalized by the company. Now, that particular item is only a inven-
5142 tory item. In other words, it is shown on their inventory voucher M-181-1920, which was a reclassification voucher in 1920 and it does not pertain to this particular building at all, we had to throw it out. We just disregarded this voucher because the cost shown on the books for this item is not the cost of this particular building.

Q. The problem now, Mr. Antonelli, is not whether you disregarded the $325.51, which your book shows as cost capitalized for that storage shed No. 9060, but whether, as you stated this morning, the Federal Power Commission examiners disregarded that amount.

A. Yes; they did because they accepted our adjusted book cost of a structural account and that as you notice there is zero adjustment for that particular building.

Mr. Milde. You mean adjustment to zero?

The Witness. To zero; yes.

By Mr. Slaff:

Q. On what journal entry did the Federal Power Commission examiners take that $325.51 out?

A. Well, I can't tell that, but I know that the adjusted book cost as shown by the Federal Power Commission is the same as ours. In other words, the $1,800,000 that they allowed us is the same figure as we had.

Q. Now then, did you make any determination with respect to this specific item and the $325.51 which was cost capitalized
5143 on your company's books for that storage shed as to whether or not the Federal Power Commission examiners did exclude that amount?

A. I did not have to make such a determination; no sir.

Q. You mean you arrived at a conclusion, then, that they had excluded that amount without making any specific determination with respect to it. Is that correct?

A. Well, they must have, they accepted; by adjustment.

Mr. Slaff. Will you repeat the question, please?

(Whereupon, the last question was read by the reporter.)

The Witness. Yes.

By Mr. Slaff:

Q. Now, where is the adjustment with respect to this item of $325.51?

A. Whose adjustment?

Q. Did you make any adjustment with respect to it?

A. Oh, I don't understand what you have in mind, what adjustment?

Q. You have stated, have you not, that this $325.51 was excluded by the Federal Power Commission examiners. Is that right?

A. They must have excluded it, if they accepted our adjustments.

Q. Now, was it stated in your working papers as "Cost capitalized per company books"?

5144 A. Will you repeat the question?

Q. Yes; was it stated in your working papers as "Cost capitalized per company's books."

A. Yes, sir.

Q. And do you know whether or not the Federal Power Commission examiners accepted that amount as cost capitalized per company's books?

A. I know that they did not accept that amount as cost capitalized per company's books because they accepted our adjusted book costs as I determined them.

Q. What adjusted book cost of yours did they accept?

A. They accepted the $1,800,000 adjustments made for property constructed by the company or purchased from other utilities.

Q. Were those your inventory adjustments?

A. They were all kinds of adjustments.

Q. And you say included within that adjustment was this amount of $325.51?

A. I assume so; yes.

Q. Well, don't you know?

A. Well, no; I don't know what the Commission——

Q. (Interposing.) Well, is all your testimony as to what they excluded with respect to this item pure assumption?

A. No; it is a fact that they accepted all of our adjustments.

5145 Q. Well now, is this specific item included in that adjustment?

A. Well, I will have to look up the working papers and I will let you know.

Q. All right, look that up, if you please.

A. All right.

Q. Now, do you have any other matters that you wish to report on?

A. That is all I have at the time being.

Q. Now then, returning to the matter of estimates of original cost which you made and particularly with respect to estimates of labor cost, you testified this morning, as I recollect, that you developed certain performance rates. Is that correct?

A. For certain billing of structure accounts.

Q. Yes, now on what basis did you determine those performances?

A. Well, I already explained that this morning.

Q. Well, as I understand your explanation, it was some kind of engineers' estimates of performance. I am trying to get the specific basis for those performances.

A. Will you explain the question a little clearer, please? I don't understand it.

Q. Surely. I will be glad to. You say you developed certain rates of performance for different kinds of work. That
5146 is correct?

A. Yes.

Q. Now, what I am trying to get from you is from what underlying data you developed those rates of performance. Was a study

made of other companies, studies made of performances at other times, and so on?

A. Well, there are so many questions in the question you ask me. What do you mean by "rates," first?

Q. Well, all right. Let's take any specific item for which you developed performance rates. Did you develop performance rates in connection with the work, the construction work shown on page 72? Let us go back to that.

A. Yes, sir; I did.

Q. You did. All right. Now, for what items, with respect to the first item shown under the "Office and Warehouse, No. 9001," did you develop performance records?

A. I developed performance rates for the portion pertaining to the construction cost of the items that were not allowed by the Commission in connection with this office and warehouse building.

Q. All right, let's see if we can get that a little more specific on the record. Did you develop performance rates for installation of concrete work, a concrete block wall?

A. Yes, sir; I did.

5147 Q. Performance rates for plaster boarding?

A. Yes.

Q. For installing plumbing fixtures?

A. Yes, sir.

Q. And for installing electric lights?

A. Yes, sir.

Q. All right, and similarly for other work you also developed performance records?

A. Yes, sir.

Q. Now that, Mr. Antonelli, is what I mean by performance rates that I have been talking about. Now will you tell us from what underlying data you developed those performance records?

A. The performances as far as the time required to construct these items, I am talking about the hours and so on, were based on information that Ford, Bacon & Davis has in their files. Now, to these performances we apply labor aids which came from the Hope pay rolls named "Pay Roll Vouchers."

Q. Just on the performances?

A. I am not through yet. Now is the part where we deviate. Now, that was the first job that I did. Then I listed the cost of three compressing stations and I was certain that the cost as far as construction cost is concerned was complete.

5148 I also had the quantities of materials that went in this compressing station structure. I applied this performance that I just described to the figures of these three compression station structures and I obtained a total and I divided this total into the total construction cost, actual construction cost, of these stations and I found out that I had to increase these performances that I have just described and cost that I have just described 25 percent together in line with what were the actual performances in cost of Hope Company.

Q. Well now, where did Ford, Bacon & Davis get the underlying data from which you developed your first performance rate?

A. It doesn't make any difference, I could have done it from any——

Q. (Interposing.) It does make a lot of difference, Mr. Antonelli. Now will you tell us where Ford, Bacon & Davis got those performance rates?

A. They got that from their experience. They have all kinds of construction work. It is their own, Ford, Bacon & Davis, experience.

Q. Now what is that supposed to represent? Is that supposed to represent the average construction experience on jobs done or supervised by Ford, Bacon & Davis?

5149 A. No, sir; it is general average perforances used for constructing structures and buildings.

Now that was adjusted upwards or downwards to conform with actual performances to various jobs that we do. In this case we had to adjust it 25 percent to get it to the performance of Hope Natural Gas Company.

Q. Yes; so you have told us several times, but we are not up to the point of adustment yet, Mr. Antonelli. Have no fear, we will come to it.

Now, before we get to that point I want to know from what specific data Ford, Bacon & Davis develops its performance rate.

A. Well, that is from their own experience in connection with other work that they have done, actual construction work they have done.

Q. Then, that is the actual rate of performance on other actual construction work done or supervised by Ford, Bacon & Davis. Is that correct?

A. Yes; large jobs—very large jobs—and it might be in a different part of the country; I don't know. It doesn't apply in that case to the Hope construction.

Q. Well, do you know where or what job, from what jobs those were developed?

A. No, sir; I don't.

Q. I see. Then as far as Hope's construction was con-
5150 cerned, it is piecemeal construction, if you please, that was by way of performance, at least, 25 percent less efficient than the performance that Ford, Bacon & Davis had observed in jobs which it had done or supervised. Is that correct?

A. No.

Q. It is not correct?

A. No, sir.

Q. For the Ford, Bacon & Davis rates were, you told me, developed from actual jobs?

A. Rates, I didn't mention anything about rates.

Q. The performance rates.

A. Oh, excuse me.

Q. The performance rates were developed from actual jobs done or supervised by Ford, Bacon & Davis. Is that correct?

A. Well, they were based on the experience of actual jobs.

Q. Well, when you say they were based on the experience of actual jobs, don't you mean that those were the actual performances on those jobs as determined by Ford, Bacon & Davis?

A. Well, I will explain it. Now, we have in our office a department called "Valuation and Report Department" and we do a great deal of reproduction cost evaluation work, so we try to get our valuation work and the production cost figures
5151 as accurate as possible, as efficient as possible, as easy as possible and as fast as possible, so in the case of buildings, taking into consideration all the experience from our engineering department, we set up formulas for how much we will install in how many hours, say, it will take a bricklayer to lay a thousand bricks. It is set up in such a way that it can be varied up or down on individual jobs and location of the job.

Q. Now, how is it developed, Mr. Antonelli? That is the question which I have asked you and I am still trying to get an answer. Aren't the rates of performance which you have developed in your valuation department based upon actual performance observed by Ford, Bacon & Davis in jobs which it has done or supervised?

A. It is based on the experience of Ford, Bacon & Davis from actual jobs.

Q. All right. Now that experience from actual jobs consisted in recording actual performances in those actual jobs. Is that correct?

A. Many actual jobs, not one, but many actual jobs, yes.

Q. Is that correct?

A. That is correct.

Q. So then, the performance rates, which you have developed in your office files, are then the actual rates of
5152 performance on jobs done or supervised by Ford, Bacon & Davis. Is that not so?

A. No, sir. No, sir; I say thay were based on the experience of Ford, Bacon & Davis, that they got from these actual jobs, but it wasn't based on one job or any particular job.

Q. Mr. Antonelli, I haven't confined any single one of my questions—perhaps you don't understand properly—to any one job done by Ford, Bacon & Davis or to any specific job done or supervised. Now, will you listen carefully to the question, please, and see if you can answer it?

A. All right.

Q. Is it not a fact that the performance rates developed by Ford, Bacon & Davis are the rates of performance found by Ford, Bacon & Davis to exist on many jobs which it has supervised or done?

A. It doesn't apply to any particular job.

Trial Examiner. Will you read the question again, please?

(Whereupon, the preceding question was read by the reporter.)

The Witness. I want to stress that fact.

By Mr. Slaff:

Q. I think we understand that part, will you read the question?

(Whereupon, the preceding question was read by the
5153 reporter.)

The Witness. I will say yes.

By Mr. Slaff:

Q. All right, those are rates which exist over a wide spread of jobs that your firm has supervised or developed, as I understand?

A. Well, I want to make sure that it doesn't apply to any particular job.

Q. Well, would you call them average performance rates?

A. Average normal rates: yes.

Q. That is the actual, the average normal actual rates of performance that exist, that have been found by you, by your firm, to exist over many jobs? Correct?

A. That is right.

Q. Now, is it not a fact that the performance of the Hope Company, as determined by you, was at least 25 percent less efficient than these average normal actual rates of performance found by Ford, Bacon & Davis to exist in these many other jobs?

A. No, sir. Not efficient. You said efficient. I wouldn't say that. They were less because of the holding conditions and the type of country and the fact that usually Ford, Bacon & Davis' performances are based on union men, union labor, while
5154 here the company could not get a very good man to properly locate it in remote places and it would be hard to attract real first-class carpenters or bricklayers. That is the main difference that makes the difference of 25 percent in cost. Another thing, this labor is here.

Q. Is what?

A. I mean the non-union labor rates are a little lower.

Q. Are you speaking of the rates of wage now?

A. Yes, wage.

Q. We are not at this time, you understand, discussing wage rates, Mr. Antonelli. We are simply discussing performances.

A. Yes.

Q. Well then, to put it another way, if I withdraw the word "efficient," to do the same work in the Hope Company, it took 25 percent more labor than to do the work for various units as developed by Ford, Bacon & Davis?

A. It took them 25 percent more time, because, as I said, the stations are located in remote places and it takes longer to get there and to come back again. I am not talking about present conditions, I am talking way back in the history of the company, the roads were not so good and it really did take a longer time to construct this building than the performances used by Ford, Bacon & Davis for up-to-date type of construction work.

5155 Now, you say you compared the perfomance rates developed by Ford, Bacon & Davis with the actual rates of performance found in the three buildings of the Hope Company, is that correct?

A. No, sir.

Q. Well, tell us how this comparison of Ford, Bacon & Davis performance was made with company performance to bring about the 25 percent adjustment.

A. Well, I have repeated that four times now, but first of all we applied to those performances the labor aids of Hope as to the day of constructing these three compressing stations, total compressing stations, and priced them, using these performances with the Hope labor aids and we obtained a total. Then we knew the total cost of these stations. I am referring now to structures again. Now, we divided one by the other. We found that the actual cost was 25 percent higher than using this hypothetical performance.

Q. So from that you deduced that the performance rates developed by Ford, Bacon & Davis were higher by 25 percent than the actual performance rates which had gone into the construction of these three compressor station structures?

5156 A. Not compressing station structures, I am talking about compressing stations, one at Cornwell, which was a large station, and another was—I will get the names of those stations.

Q. I wish you would, please.

A. Cornwell, Payne and Minnora.

Q. When was Cornwall—is that Cornwell or Cornwall?

A. Cornwell, C-o-r-n-w-e-l-l.

Q. Yes, when was that constructed?

A. I will have to look it up. I think in 1925. I am not quite certain.

Q. What about Payne?

A. Well, I will have to look them up. I don't remember offhand.

Q. Were any of these three stations constructed prior to 1920?

A. I am not certain, I will have to look it up.

Q. Do you have that information here?

A. No; I haven't.

Q. Now then, turning to your Account 353, "Mains," you said with respect to that this morning, if I remember your testimony correctly, that out of a total of some \$102,000 summation on page 357, you had specific voucher references for some \$58,000 and for \$44,000 of construction cost you had no specific voucher references, but had estimated those costs. Is that correct?

5157 A. Yes, sir; that is correct.

Q. Now, those estimates were developed as the cost of similar construction for the same period. Is that it?

A. We summarized the costs of all transmission lines by size and kind by periods for which we knew the actual cost of construction, the actual amount paid by the companay for constructing those lines and we obtained the cost per foot for each size and kind of pipe and that cost per foot was the one that was used in case of the items appearing on pages 356 and 357. It is the actual cost, no estimates at all, the actual cost for constructing similar lines at about the same time and the same kind of pipe.

Q. Well, costs of other construction, of course. That is correct, is it not?

A. The cost of constructing transmission lines; yes.

Q. Not these specific lines?

A, Oh, no; if I had the costs I wouldn't have to estimate it.

Q. Now, Mr. Antonelli, can you tell us which takes more time, abstracting a lease or abstracting a deed?

A. Will you read the question?

(Whereupon, the pending question was read by the reporter.)

The WITNESS. Well, I would say it all depends on the deed
5158 or it all depends on the lease, I can't answer that question offhand.

By Mr. SLAFF:

Q. No; on the average?

A. I don't know, I can't answer that question offhand.

Q. You mean you are just not prepared to answer it. Is that correct?

A. Yes, sir.

Q. All right. Now, turning for a minute to your first account shown in this Exhibit 60, Account No. 330-1, where were the expenses in connection with the items there set out originally charged? Do you know?

A. They were charged to operations.

Q. And beginning right at the beginning with this account you there disregarded the Instruction 2-B of the system of accounts or at least so much of it as states that "It is, likewise, not intended that adjustments shall be made to record in utility plant accounts amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of management as exercised under such uniform system of accounts." That is correct, is it not?

A. Yes; I disregarded the last sentence; yes.

Q. Yes. Now, with respect to your Account 330-2, natural
5159 gas-producing leaseholds operated and unoperated, what is the situation with respect to the expenses in connection with those items?

A. Well, what do you mean by "the situation"?

Q. Well, were any items there previously charged to operating expenses or not?

A. I think they were.

Q. Do you know?

A. Well, I know the abstracting cost was charged to operation; yes, sir.

Q. And what about the other costs?

A. I don't know.

Q. What was the answer?

A. I say I can't answer.

Q. Now, with respect to Account No. 330-2, unoperated leaseholds, was any amount allowed by the Federal Power Commission examiners as consideration cost as far as the entire account was concerned?

A. I think that the Federal Power Commission included the unoperated leaseholds in Account 100-4.

Q. Well, was any amount included in that account as representing consideration cost for such unoperated leaseholds?

A. Included where?

Q. By the Federal Power Commission examiners.

A. I know, but where?

5160 Q. As part of the original cost of the property.

A. You mean as part of the $51,000,000 adjusted book cost?

Q. As part of the original cost of that property as determined by the Federal Power Commission examiners.

A. Original cost—I didn't know they had any original cost.

Q. Oh, Mr. Antonelli, quit stalling, will you?

A. No, I am sincere about it. Are you talking about the $51,000,000 or are you talking about the items that were adjusted out?

Trial Examiner. Whatever we have been talking about all the time.

The Witness. No; there are two things in there. We are talking about a $51,000,000 adjusted book cost that we have and they allowed some other items that they adjusted out.

By Mr. SLAFF:

Q. All right, let's get it this way just so you won't have any problems as to what we mean by the question. Did you inventory the leases, unoperated leases?

A. Did I inventory?

Q. Yes.

A. I obtained these lists from the company's records and made sure that they were in existence as of December 31, 1938,
5161 that, in effect, is an inventory of the unoperated leases as of December 31, 1938.

Q. And did you make a detailed list of each and every one of those?

A. Yes, sir; I did.

Q. Now, then, did you make any adjustment to the book cost as shown on the company's books of those leases?

A. We determined the original cost of those leases and, of course, the difference between the book cost and the original cost was the adjustment.

Q. Did you add an amount of $104,811 to the cost shown on the company's books for those leases?

A. Excuse me, I will have to get my papers.

Q. Please do.

Mr. MILDE. Mr. Examiner, on your point, when Mr. Antonelli is talking about the $51,000,000 he means the plant accounts including the operated leases, because the Federal Power Commission examiners in their $51,000,000 figure didn't include unoperated leases but had transferred those to Account 100-4. That may have caused some confusion and I thought I would clarify that.

Mr. SPRINGER. That is plant held for future use?

Mr. MILDE. Yes; and they have treated that another way with some interest.

The WITNESS. Yes; I did. Excuse me, repeat the ques-
5162 tion, please.

(Whereupon, the pending question was read by the reporter.)

The WITNESS. I would like to put it the other way. My original cost was $104,000 over and above the book cost. All right.

By Mr. SLAFF:

Q. That may be a different—I don't know the distinction, but it is all right.

A. Well, I determined the original cost and at the same time my purpose of showing the book cost was to show the relation between original cost and book cost.

Q. Where was that $104,811 determined? How was that determined?

A. That was determined in the same manner as we determined the original cost of the operated leases.

Q. And how was that?

A. By going to the company records and finding the costs of the first lease.

Q. And you had specific vouchers then——

A. (Interposing.) Excuse me.

Q. I beg your pardon, I thought you had completed.

A. The first lease by examining the vouchers and making certain that those were the costs for each lease that we have included in the original cost.

5163 Q. And you found specific vouchers for each and every lease which went in to make up that total of $104,811. Is that correct?

A. Yes, sir.

Q. And that amount was included by Federal Power Commission examiners in their determination of the original cost of gas plant, was it not?

A. It was not included in the adjusted book costs of $51,000,000. It was included as adjustments under Account 100-4, property held for future use.

Q. Well, it is in the total of the gas plant, the original cost of the gas plant as found by the Federal Power Commission examiners, is it not?

A. Not in the $51,000,000 that we are talking about.

Q. The $51,000,000, Mr. Antonelli, refers to the gas plant in service, does it not?

A. That is right.

Q. There is another gas plant of the company, is there not?

A. Yes, sir.

Q. That is gas plant held for future use. Is that not so?

A. That is correct; yes, sir.

5164 Q. So that all the gas plant of the company is composed generally of two components, gas plant in service and gas plant held for future service. That is correct, is it not?

A. That is correct; yes.

Q. Now, in the total of gas plant, the Federal Power Commission examiners allowed this amount of $104,811 for consideration cost for leases unoperated, did they?

A. Yes, they did and classified it as property held for future use.

Q. And for those considerations you had specific vouchers, did you? Is that correct?

A. Yes, sir; I did.

Q. Did you have specific vouchers for showing the consideration for the other leases unoperated from which you derive a total of $4,088 as consideration cost?

A. Will you read the question.

(Whereupon, the pending question was read by the reporter.)

By Mr. Slaff:

Q. Let me withdraw that question so it will be a little clearer on the record.

You have stated, have you not, that the total of $71,591 shown on page 62 was made up of abstracting, obtaining, recording, consideration and miscellaneous costs? Is that right?

A. Yes.

5165 Q. And within that total is $4,088 for consideration costs, is that correct?

A. That is correct.

Q. Now then, the question which I put to you earlier, do you have specific voucher references for the consideration costs going in to make up that total of $4,088?

A. No, sir; I do not have specific vouchers for this amount.

Q. Now, to what leases are those dollars applicable?

A. I have the information, but they are not available at the moment. I have them in my working papers.

Q. Now, how did you develop that total of $4,088?

A. It was based on the consideration of other leases acquired from the same county and I believe the same years as the leases, but we did not have the cost, the leases that make this $4,000.

Q. Now, how did you know that consideration was paid for these particular leases?

A. Oh, we have information in the files which shows that consideration was paid.

Q. It didnt' show the consideration, however, is that right?

A. The consideration was expensed and I could not obtain the actual cost so it was necessary to estimate.

5166 Q. Now then, with respect to these leases, you say the consideration was expensed but you have no voucher references for them. Is that right?

A. Yes.

Q. Now, you have a list, do you, of the specific leases?

A. I could produce a list of these specific leases; yes, sir.

Q. To what expense account were those costs charged, do you know?

A. No, sir; I do not.

Q. Well, how do you know they were expenses?

A. As far as I recall, my working papers show that they were expensed.

Q. Do your working papers show the account to which they were expensed?

A. Well, I will have to refer to my working papers to answer that question. I can't tell offhand.

Q. All right, will you do that?

A. Yes, sir.

* * *

5167 By Mr. Slaff:

Q. Now, Mr. Antonelli, I don't know whether we have specifically covered it or not, but the cost which you used for abstracting cost in Account 330–1 was an estimated cost, is that correct? That is at page 2 of your Exhibit 60.

A. The abstracting cost was not an estimated cost, it was based on vouchers and was supported by vouchers.

Q. Well, what vouchers?

A. Hundreds of vouchers.

Q. Well, it was an estimated cost, estimated from hundreds of vouchers for this specific abstracting of Deed No. 46,404?

A. No, sir; I explained yesterday, and I will explain it again, that the Company never kept the cost of each abstracting separately. Therefore, it was necessary for me to total all of the abstracting costs and divide it by the number of abstracts, to get an average cost.

5168 It is an allocated price, an allocated cost, and I did that for various periods, but it was supported by vouchers, and we have the vouchers, and I can tell you the name of the man that did the abstracting, and the date he did it, and how much money he spent for expense in connection with the abstracting, and his salary, and everything else.

Q. You can tell us the name of the man who abstracted Deed No. 46,404?

A. Absolutely, I have it right in front of me.

Q. What is his name?

A. C. S. Weaver.

Q. And how much time did he spent on abstracting Deed No. 46,404?

A. Well, I couldn't tell you that, but I can tell you how much he spent in total amount.

Q. No, we are confining ourselves to Deed No. 46,404, shown on page 2, and you arrived, did you not, at an abstracting cost in connection with that particular deed, of $47.40?

A. The $47.40 is the average allocated actual cost for abstracting for the period that this deed was acquired.

Q. Now we are confining ourselves to Deed No. 46,404. You used, in your Exhibit No. 60, at page 2, in columns 2 and 6, an abstracting cost of $47.40 for that specific deed; isn't that so?

A. Yes, sir; I did.

Q. Now do you know what the specific cost of abstract-
5169. ing that specific deed was?

A. I might surprise you and find it, because I think I have it. It is more than $47 ——

Q. (Interposing.) Oh, Mr. Antonelli, do you know what the specific costs of abstracting that specific deed No. 46,404 were? Do you know or don't you?

A. I don't, because the Company did not keep records of the specific costs for each abstracting.

Q. All right.

Now then, your amount of $47.40, as the cost of abstracting used by you, as the cost of abstracting that specific deed, is an estimate derived from costs of abstracting a number of deeds, is it not?

A. No; sir.

Q. Are you caviling or do you have objection to the term "estimate"; is that it?

A. No; it is an allocated actual cost of the deeds and leases that have been abstracted. It cost the Company so much per year to abstract leases, and they had so many leases abstracted. By dividing the number of leases into the cost, I got the average cost; and that was the only practical way to get it and get done in time.

Q. Mr. Antonelli, isn't an average cost an estimated cost, what is the difference?

A. Oh, not at all.

5170 Q. Well, then, it is the term "estimated" that you were objecting to; is that right?

A. Yes, sir. I know that this cost of $47.40 is actual cost incurred by the Company in abstracting.

Q. How much time did it take Mr. Doakes to abstract that specific lease or deed?

Mr. WILDE. Weaver was the name.

The WITNESS. Judging from the amount, he probably spent 5 or 6 or 7 days.

By Mr. SLAFF:

Q. Do you know?

A. Sure I know. I know his salary, and judging from that he probably did spend that much time, and that is the average time it takes to abstract leases and deeds.

Q. Now getting away from averages, Mr. Antonelli, do you know the specific amount of time that Mr. Weaver was engaged in abstracting Deed No. 46,404; do you or don't you?

A. No; I said no; no, sir; I don't.

Q. Then you don't know what the cost to the Company of abstracting this one deed was?

Mr. MILDE. I object to the question. It has been asked and answered twice before.

Mr. SLAFF. Well, it may have been asked several times before, but I don't know whether it has been answered.

TRIAL EXAMINER. Let him answer it again.

5171 The WITNESS. No; I don't, and I would like to qualify my answer by saying I don't know because the Company did not keep separate the costs incurred in connection with abstracting; but I do know the actual average allocated price for abstracting.

By Mr. SLAFF:

Q. And that is what this $47.40 is, your conception of the average allocated cost—right?

A. Yes, sir; and this isn't any different than the pipe lines, or anything else.

For instance, the pipe line might have had, say, 1,000 feet, and later on we find out that the line is only 500 feet. Say we find out as of December 31, 1938, that we only had 500 feet. Therefore, we allocate the cost of the 1,000 feet to the 500 feet.

Q. And that you——

Mr. Milde (interposing). You mean you wrote that out?

The Witness. Well, we wrote out the 500 feet.

Trial Examiner. You wouldn't call that an estimated cost?

The Witness. No, that is an actual cost, only half of the line was gone.

By Mr. Slaff:

Q. You did make estimates in connection with this Exhibit 60, did you not?

5172 A. Yes, sir; I did.

Q. But these costs you consider outside of the category of estimates; and these are not estimates, but average allocated costs, is that right?

A. You refer to abstracting now?

Q. Yes.

A. The abstracting I consider actual costs.

Q. Average allocated actual costs would be a complete statement—right?

A. Yes.

Q. Does that also apply with respect to leaseholds, Account 330-2?

A. Yes, sir; it does.

Q. Now did you obtain your average allocated cost for abstracting leases in generally the same manner that you obtained it for abstracting deeds?

A. Yes, sir.

Q. That is to say, for each year you took the number of leases abstracted, the number of men who worked on abstracting leases for the Company, their salaries, and divided the amount of dollars paid by the number of leases they abstracted; is that it?

A. Yes; and sometimes, and for some years, the Company had abstracting done by outsiders. In that case we will show the total cost of abstracting, lease by lease.

5173 Q. And again, you would not consider that you had estimated the cost of abstracting any of these leases?

A. No, sir.

Q. Now with respect to Account No. 330-5, Other Land and Land Rights, were your abstracting costs developed in the same manner as we have discussed with respect to the other two accounts?

A. Yes, sir; that is true with all the land and lease accounts.

Q. Will you tell me whether Ford, Bacon & Davis made a labor performance study of the construction in connection with the Hope property in 1929?

Mr. MILDE. I object to that. It is not relevant to any question in this case.

TRIAL EXAMINER. I can't see the relevance just at present.

Mr. SLAFF. If it is not developed as relevant, it will be subject to a motion to strike.

Mr. MILDE. I think we might have a statement by counsel as to how he expects to make it relevant.

Mr. SLAFF. At this point I prefer not to make such a statement.

TRIAL EXAMINER. All right, you may reserve the right to move to strike if it isn't properly developed. The objection is overruled.

Mr. MILDE. Note an exception.

5174 The WITNESS. Ford, Bacon & Davis, in their valuation of the Hope properties as of 1929, priced in detail all of the compressing stations and other structures, and I presume they developed unit costs, similar unit costs to those that I have referred to this afternoon.

By Mr. SLAFF:

Q. Getting away from your presumption, Mr. Antonelli, do you know whether they developed such unit costs?

Mr. MILDE. I object, on the same grounds.

TRIAL EXAMINER. The objection is overruled.

Mr. MILDE. Note an exception.

The WITNESS. I don't know offhand, no, sir.

By Mr. SLAFF:

Q. In your original cost determination in this case, did you make any investigation to determine whether, in 1929 or thereabouts, Ford, Bacon & Davis had developed any unit costs and performance rates for the Hope properties?

A. Yes, I did.

Q. And what did you find?

A. Well, I can't recall offhand. I will refer to my papers and let you know.

Q. Well, where is that contained in your papers?

A. Oh, it is contained in the 80,000 pages that we have in connection with this original cost determination.

Q. And are you meaning to tell us now that just at this
5175 moment you don't know that Ford, Bacon & Davis did

develop such unit costs and performance rates for construction on the Hope property at that time?

Mr. MILDE. Objection.

TRIAL EXAMINER. Overruled.

Mr. MILDE. Note an exception.

The WITNESS. I think they have, but I would like to make certain.

By Mr. SLAFF:

Q. I have no objection, Mr. Antonelli, I want you to understand, to your verifying your answers.

Now did you use those rates of performance in any way in connection with the estimation of performance for your original cost determination?

A. I can't say offhand, I will have to refer to my papers.

Q. Well, Mr. Antonelli, don't you know now whether you did use those performance rates, developed by Ford, Bacon & Davis specifically for the Hope property in 1929, in connection with your original cost determination?

A. No, sir; I don't know offhand.

By "performance" you mean again the hours and not the costs, is that it?

Q. That is right.

A. We might have, but I am not certain. I will have
5176 to examine the working papers, and I will let you know.

Q. Did you have anything to do with that 1929 valuation of the Hope properties?

A. I think so, but I don't recall, it is so long ago, and I can't tell. There are so many jobs that we are doing that I can't tell you offhand. I will have to refer to the working papers.

Q. I notice you listed in your statement of qualifications in your Exhibit No. 20, "The companies for which I have done work of the foregoing nature include the following," and then you refer to the Hope Natural Gas Company, at page 3.

A. But there were several Hope Natural Gas Company jobs, and I think this refers to other jobs, in 1937, maybe, or 1923, or something like that, and I can't tell you which one.

Q. While you are checking this matter of whether or not unit performances were developed, and whether or not you used them in connection with your original cost determination, will you also refresh your recollection as to whether you had any con-

nection with that 1929 valuation; and if so, what the natu of your connection was?

A. I will be glad to.

Q. Now turning to Account No. 331-2, Field Measuring an Regulations Station Structures, shown on page 69 of your Ex hibit, can you tell us whether or not any of the costs involve

5177 in constructing those boxes or houses, were included i the miscellaneous costs incurred in connection with tha account?

A. Well, I don't understand what you mean by "miscellaneou costs" included in that account?

Q. Well, in the structure account, in 331-2, isn't there a sub account, "Labor, Teaming, Freight and Miscellaneous Costs"?

A. Yes, sir.

Q. Now tell us what is meant by "miscellaneous costs" in tha subaccount?

A. I don't have any miscellaneous costs.

Q. What?

A. I don't have any miscellaneous costs.

Q. What is meant by the term "miscellaneous costs" in tha subaccount?

A. I don't have any miscellaneous costs in this subaccount. I have material and I have labor.

Q. Now let's start all over again, Mr. Antonelli.

There is a subaccount, "Labor, Teaming, Freight and Mis cellaneous Costs"?

A. Not in this account; not the way I developed it; no, sir.

Q. No; I realize that, Mr. Antonelli, but on the Company's books, in the Company's records, getting away from page 69 fo the moment?

5178 A. I don't know what is on the Company's books.

Q. You mean you don't know anything at all about any thing that is on the Company's books?

A. Yes, I do, but I couldn't remember just every account.

Q. I am not asking you to remember the specific details of every account. Just getting away from your page 69, within the Account "Field Measuring and Regulating Station Structures", there is a sub-account, is there not, "Labor, Teaming, Freight and Miscellaneous Costs"; isn't that so?

A. I don't recall. I can't say unless I look up the books and see

Q. Well, you told me just a few minutes ago there was.

A. No; I never said anything about this account having miscellaneous costs, unless you mean by "miscellaneous costs" the way we use it sometimes,—for instance, we have in a structure—not in this structure, but in other structures,—main items such as lumber and concrete and roofing, and so on, and then we have some miscellaneous costs such as fixtures or plumbing or that type. Is that what you have in mind?

Q. Mr. Antonelli, doesn't practically every one of the accounts of the Company contain a provision, a subdivision for miscellaneous costs?

A. In the case of pipe lines they do have miscellaneous costs, and that includes miscellaneous small materials and
5179 supplies consumed during construction, and board, and doctors' bills, and stamps, and things like that.

Q. How about field lines; does that account also have a miscellaneous sub-account?

A. Yes; pipe lines are field lines.

Q. How about compressor stations?

A. Yes, I think the compressing stations have.

Q. How about field measuring and regulating station structures?

A. I don't recall about this account; I know some other accounts have it.

Q. All right, Mr. Antonelli, will you check that account and determine for us whether or not there is provision made in this account for miscellaneous costs?

A. Yes, sir. The structures are so small, you know, and I don't think they would have miscellaneous costs for this account.

Q. Well, you will check and find out and report to us?

A. Yes.

Q. Now you say you found a voucher covering 700 of these 1300 wood boxes, is that right?

A. Yes, sir; I found several vouchers. One of the vouchers was for 689 meter boxes. The voucher was L-92, 1919.

Q. And you used the cost as developed from that voucher for the bulk of the 1386 boxes?

5180 A. Well, this voucher covers the construction and installation of part of these 1300 boxes, yes.

Q. Now first off, where was that expense charged to in the first instance, do you know?

A. I think it was charged to operation.

Q. That voucher covering some 680-odd boxes?

A. Yes, sir.

Q. When were these 1300 boxes constructed, do you know?

A. They were constructed at about the period of this voucher. I will explain that. The company will build these boxes and keep them at the warehouses and use them as they need them. They are small boxes, and usually they do this work when they are not very busy, in the summer, and they store them and then use them later. So that is why they all happen to be in 1919. I assume that that is the answer, or I am positive that that is the answer.

Q. You are positive that is the answer with respect to the entire 1300, is that right?

A. No; there were some other vouchers that show some other boxes installed in different years. This was the large one.

Q. Can you tell us when the balance of those boxes was constructed?

A. I could probably tell you about 50 more, the actual cost for approximately 50 other boxes.

5181 Q. When were those constructed?

A. Various years, 1920 and 1923 —

Q. (Interposing.) Were those all expensed?

A. Yes, sir; they were.

Q. All vouchers that you found in connection with these boxes had been charged to operating expense, the costs had been charged to operating expense?

A. Yes, sir.

Q. Now with respect to the houses, the 122 houses, do you know how those were charged, that is, the costs in connection therewith?

A. They were charged to operation.

Q. Now going back to another matter, Mr. Antonelli, can you tell us now whether or not it is a fact that your Company, the Hope Company, has always been required to show the cost of its property in its capital account?

A. No, sir; I cannot. I don't know what were the Company's policies, and I wasn't interested in finding out.

Q. Now how long have you been in this business of valuing public utility properties?

A. Any public utility property?

Q. Yes.

A. Since 1919.

Q. And in the course of that time, have you familiarized yourself with the Systems of Accounts under which the utilities
5182 which you were valuing were required to operate?

A. I investigated the books in order to get the costs, yes. I know something about——

Q. (Interposing.) You know something about the Systems of Accounts?

A. Yes.

Q. Now do you know something about the System of Accounts under which the Hope Company operated in West Virginia prior to the present System of Accounts, the prior system being in evidence here as Exhibit No. 12, I believe?

A. Yes, sir.

Q. And do you also know something about the System of Accounts of the West Virginia Commission under which the Hope Company was required to operate from 1923 to 1931?

A. Yes, sir.

Q. You do?

A. Yes, sir.

Q. Do you know whether, under those Systems of Accounts, the Hope Company was required to show in its fixed capital accounts the cost of its properties?

A. Yes, I do.

Q. And it is a fact, is it not, that under the Systems of Accounts under which the Hope Company was operating, from 1923 on, at least, of the West Virginia Commission, it has always been
5183 required to show in its fixed capital accounts the cost of its properties?

Mr. Milde. I object to that. The accounts are in evidence, and it is not a question of fact, it is a matter of interpretation of the accounts.

Mr. Slaff. I don't know what interpretation there is.

Mr. Milde. Also, it is not proper cross-examination of Mr. Antonelli.

Trial Examiner. Well, so far as the existence of the facts are concerned, I think they are entirely clear from the evidence. If the purpose is to test the knowledge and reliability of the witness, that is something else.

Mr. Milde. Well, as I understand it, that isn't the purpose of the question. Mr. Antonelli hasn't been testifying as to the interpretation of Codes of Accounts. He has testified that it hasn't been necessary for his original cost determination.

Mr. Slaff might as well interrogate Mr. Antonelli about his qualifications on the Ohio Code of Accounts, or something else, if he just wants to know how much he knows about accounting. It certainly has nothing to do with what he did, nor does it test his reliability or credibility as a witness on the subject for which he was presented.

Trial Examiner. Well, it doesn't seem to me that it is of great importance, anyway, so far as that is concerned.

The objection is overruled.

5184 Mr. Milde. Exception.

* * *

The Witness. I don't know what is required, but I could tell you what actually Hope did.

By Mr. Slaff:

Q. I am asking you whether you know what they were required to do under the governing Systems of Accounts from at least 1923 on?

A. Well, I could tell you from this Code of Accounts what was required, yes. I have read this Code of Accounts, and I know what is required.

Q. And was the Company, the Hope Company, required to show, in its fixed capital accounts, the cost of its properties?

A. According to the Code of Accounts prescribed as of 1923, yes.

Q. You determined the cost of the Hope Company's properties from sources other than the fixed capital accounts of the Hope Company, is that correct?

A. I went back to the vouchers and records where the actual cost was recorded, because I found that the fixed capital did not reflect the actual or complete cost of these properties.

5185 Q. Well, is that the equivalent of saying, are you telling us, then, Mr. Antonelli, that the Hope Company—in your judgment, at least—did not keep its fixed capital accounts in the manner in which they were required to keep them under the controlling Systems of Accounts, from 1923 on?

A. I am not a judge of that, I am not experienced enough to say that. I don't know.

Q. Are you telling us that the fixed capital accounts of the Company did not show the cost of the Company's properties?

A. It showed some costs, but they didn't show the complete costs.

Q. All right.

Now have you testified earlier today, or yesterday, that you were not interested in the bookkeeping or the accounting practices of the Company, and that your job was to determine the original cost of the Hope properties?

A. Yes, sir; to determine the original cost of the Hope properties from the Hope records, vouchers, and so on.

Q. And it is your belief, is it, that that determination can be made regardless of the Company's accounting practices?

A. That is the only practical way that one could make original cost, at least that is my experience.

Q. And is it your statement that such a determination of cost can be made without regard to the accounting for the
5186 various transactions?

A. My experience wasn't as difficult as that. What I did was, as I said before, make a list of all of the items in the system; then go to the various records of the Company where the actual costs for these items were recorded; and that is all I did, all I had to do. It was just a tedious job finding the cost of each item.

Q. I should like at this time, Mr. Antonelli, to find out, if I can, from you what were the principles that underlay your determination—and I am asking you now whether it is your testimony that the costs of property can be determined without a consideration of how the transactions were accounted for in the first instance?

A. Well, I did take that into consideration in connection with the investigation of the vouchers and records of the Company. Naturally, the vouchers will show the transactions, and I read them very carefully to see what happened to the various items. But I confined myself to the individual items and what happened to each individual item, and not what was the practice of the Company or what the Company did on their books, or what-not, or what was the policy of the Company. I didn't care if the item was expensed or capitalized, or what-not.

My job was to find the actual cost, the amount of money that the Company paid for these properties.

5187 Q. Mr. Antonelli, is it not a fact that for two identical construction jobs, the costs may vary, depending upon the accounting procedures of the two companies which have constructed those identical jobs?

A. I don't understand the question; will you explain it?

Q. Surely. Let's put a case to you.

Let's consider a pole line construction—everything else is the same, of course, all other factors are the same—a construction by two companies. In each of the cases the company has taken 500 poles out of its storehouse; in each of the cases each of the companies had, let us say, 2,000 poles in its warehouse, not specifically identified; and the poles had been acquired by each of the companies in the following manner: 1,000 at $1 apiece, and the remaining 1,000 at $2 apiece. Do you follow me that far?

A. Yes; I follow you.

Q. Now suppose the first company accounts on the "first in-first out" method, and the second company accounts on the average cost method. What is the cost to the first company of the material in the pole line of the 500 poles, and what is the cost to the second company of the material in the pole line which they construct?

A. Well, I can't answer that question; it doesn't mean anything.

5188 Q. Mr. Antonelli, you were discussing "first in-first out" yesterday, weren't you?

A. Yes.

Q. That is the way you priced out the communications equipment inventory of this Company, wasn't it?

A. Yes; sir.

Q. You know what "first in-first out" means, don't you?

A. Yes.

Q. You know what "average" means?

A. Yes.

Q. All right. Now then, confining ourselves to the first company, under the hypothesis I have given you, what is the cost of those 500 poles in its pole line? That is the company that uses the "first in-first out" method of accounting.

A. Well, the cost would be that the company will use the most recent poles first, and will keep on using them until it exhausts all of its poles.

Q. What is the cost to the company of the 500 poles in its pole line under the "first in-first out" method of accounting?

A. Well, what was the cost, a dollar apiece?

Q. A dollar apiece.

A. It would be $500.

Q. Well, what is the cost of those identical 500 poles
5189 to the second company which accounts on the average?

A. That was a dollar apiece?

Q. The costs were identical.

A. It would be $500.

Q. On the average method?

A. Well, you have 500 poles——

Q. (Interposing.) Perhaps you don't understand the question, Mr. Antonelli.

The 2,000 poles were put into the warehouse and none of them were tagged. The first 1,000 that went into the warehouse cost $1 apiece, and the second 1,000 that went in cost $2 apiece. Now the first company accounts on the "first in-first out" method; the second company accounts on the average cost method.

Now will you tell us what the cost of those 500 poles in the pole line is, as far as the second company is concerned?

Mr. Milde. I object to that question unless Mr. Slaff will state to the witness what he means by the word "cost." Does he mean the actual cost or the accounting cost?

Mr. Slaff. Mr. Examiner, I am trying to find out from the witness what he means by "cost."

Mr. Milde. No, he slips in this word "cost" without any statement to the witness as to whether he wants the actual cost or the accounting cost, or the cost——

Mr. Slaff (interposing). This witness can qualify all over the lot, and I have no objection to his qualifying his
5190 answer if he feels he can't answer it unqualified.

Mr. Milde. The answer is inherent in Mr. Slaff's assumption. If he means actual cost, he said that all of these poles cost exactly the same thing to both companies. So obviously, by "cost," when he goes on to ask a question about it, he must mean something else besides actual cost.

You say to a witness, "500 poles cost one company the same amount of money as they do the other company; now what does it cost Company A and what does it cost Company B?"

Now the word "cost" the second time isn't used in the same way. I think the witness is entitled to a statement by the cross-examiner as to what "cost" he wants him to figure out.

Mr. Slaff. This witness has used allocated cost; he has used cost; he has used estimated cost; he has used first in-first out cost. He knows what costs are—maybe.

Trial Examiner. This witness is an expert in determining costs, and he is being asked now how he would make that determination and what his determination would be.

Mr. Milde. I thought he was being asked what the cost was as meant by Mr. Slaff, because he starts out with the premise that these things cost the same amount. So when he says——

Mr. Slaff (interposing). I say that the first 1,000 poles
5191 cost each of the companies a dollar apiece, and the second 1,000 that went into the warehouse cost each of the companies $2 apiece.

Mr. Milde. So it is perfectly apparent that all these poles cost Company A and Company B exactly the same amount of money.

Mr. Slaff. Mr. Antonelli, do you understand now what Mr. Milde wants you to testify to?

The Witness. No, sir; I don't.

By Mr. Slaff:

Q. Maybe you understand my question?

A. No; I don't understand your question. It is so mixed up.

Q. Let's start from the beginning; let's get the assumption straight.

Trial Examiner. Well, you understand the assumptions, don't you?

The Witness. Not quite; I want to make sure what he has in mind.

Trial Examiner. Start over, then.

By Mr. Slaff:

Q. Each one of the companies buys the first 1,000 poles at a dollar apiece. That is clear, isn't it?

A. Yes.

Q. They each buy the second 1,000 poles at $2 apiece—right?

5192 A. Yes.

Q. In each case the 2,000 poles are in the warehouse, unidentified, untagged. The first company accounts on the "first in-first out" method; the second company accounts on the average cost method. Each one of these companies constructs a 500-pole run. Now what is the cost to the first company of the 500 poles in that pole line which it has constructed?

A. Well, that is not the way we did it, but I will answer your question. For one company it will be $1.50 per pole, and for the other it will be $2 per pole.

Q. You are a little off aren't you, Mr. Antonelli?

A. Then I don't understand your question.

Q. "First in-first out," what does that mean to you?

A. On the "first in-first out" theory, you exhaust the latest costs or the latest poles, and then you go back to the first ones.

Q. Aren't you thinking of "last in-first out," Mr. Antonelli?

A. That is right. No, "first in-first out." We took out the oldest poles and we retired the oldest poles first, and we assume that the poles that are in there now are the latest poles.

Q. What poles would go out of the warehouse first on the "first in-first out" method, Mr. Antonelli?

5193 A. The oldest poles will go out first.

Q. Go out of the warehouse?

A. The latest poles will go out of the warehouse, the oldest poles will go out from the inventory.

Q. We haven't had any poles in the field and in our inventory, we have just got 2,000 poles in each of the warehouses.

A. Yes.

5194 Q. Now, under the "first in—first out" method, which poles would go out first, the oldest ones?

A. That is not what I did at all. I don't know which poles would go out under the "first in—first out" method.

Trial Examiner. You mean which ones would be charged off the books, don't you?

Mr. Slaff. Certainly.

Trial Examiner. He is talking about taking the poles physically out of the warehouse and I assume the first ones they would take out are the last ones they put on the pile.

By M. Slaff:

Q. Let's get back to the same language. Can you tell us now what is the cost of the 500 poles in the pole line under the "first in—first out" method of accounting for cost?

A. In the warehouse or in the inventory?

Q. In the pole line that has been constructed.

A. I am sorry, but I don't understand your question. I want to make sure now. We were talking about warehouses and now you are talking about the line. What are you talking about?

Q. Mr. Antonelli, do you mean now that you don't understand what the question was that was put to you?

A. No, sir.

Q. Do you want to start all over again, from the be-
5195 ginning?

A. Yes.

Q. Will you just listen reasonably carefully then? You do understand the underlying assumptions that each of the two companies bought a thousand poles at $1 apiece, put them into the warehouse; and each of the companies then bought another thousand poles at $2 apiece and put them in the warehouse.

Then, each of the companies withdrew 500 untagged poles from the warehouse and constructed a pole line. Is that all clear to you, up to that point?

A. Yes, sir.

Q. Now, then, what is the cost of the pole line to the first company which counts on the "first in—first out" basis?

Trial Examiner. You are called on in each case to determine the cost of those poles.

The Witness. Well, they are untagged, those poles?

By Mr. Slaff:

Q. Completely untagged.

A. They won't know which are the dollar poles and which are the $2 poles, and they are all mixed up together. Therefore, they will have to use the average price.

Q. Well, my assumption, Mr. Antonelli, is that the first company does not use the average price but uses the "first in—first out" method of pricing.

5196 A. That assumption is wrong because if the poles are untagged, the company does not know which are the dollar poles and which are the $2 poles.

Q. Mr. Antonelli, don't you know that it is a thoroughly sound, accepted method of accounting to account "first in—first out" where items in a warehouse are unidentifiable?

A. No, sir.

Trial Examiner. Isn't that what you did?

The Witness. No; I did that in the case of the inventory. I was talking about the inventory, Mr. Examiner, and not about the warehouse.

By Mr. Slaff:

Q. Well, Mr. Antonelli, are you intent now on demonstrating that you don't know anything about accounting; is that it?

A. No, I don't say that; no, sir.

* * *

5572 Peter Antonelli, having been previously sworn, took the stand and testified further as follows:

Cross-examination by Mr. Slaff:

Q. Mr. Antonelli, you will recollect that towards the conclusion of your examination on Tuesday we were discuss-
5573 ing an illustration which I had put to you with respect to cost of identical property to two different companies. Do you have the facts of that illustration in mind?

A. Yes, sir; I do. I am sorry I misunderstood you. I thought you were talking about communication equipment.

Q. No; you understand that was purely an illustration I was giving?

A. Yes.

Q. And with respect to that I had asked you to tell me what the cost of the poles in the pole line of the first company which are accounted on a first-in, first-out basis was. Can you tell me that now?

A. As far as the actual cost is concerned, the cost to the "A" company is the same as the cost to the "B" company.

Q. No, I am not asking for a comparison. I am asking you in dollars now. Let us take "A" company which accounts on a first-in and first-out basis and "B" company as the company which accounts on an average basis. Now, will you tell me what is the cost in dollars of the poles in the pole line of company "A"?

A. From a bookkeeping point of view?

Q. What is the cost?

A. Well, what, do you mean, actual cost or bookkeeping cost?

Q. What is the actual cost in dollars of the poles in
5574 the pole line of company "A"?

A. Well, I will have to estimate it.

Q. Well, now will you tell me, why, first off, you have to estimate it on the basis of the facts which I have given you?

A. Well, on the basis of the facts which you have given me, which is not the actual cost but just an accounting cost, the cost of that particular line would be $500.

Q. Now, you say that that is not the actual cost. Is that correct?

A. That is correct; yes.

Q. Now, will you tell me why that is not the actual cost?

A. Because the company spent $3,000 for the poles that they purchased.

Q. No; there is no necessity at this time, I believe, Mr. Antonelli, to bring in company business. We will make the comparison, you needn't worry about that, we will get around to the problem of comparing the two companies, but confine yourself, please, now to company "A" and tell me why the actual cost of those 500 poles is not $500?

A. Because the company selected to take out of the $3,000 five hundred poles at a dollar price, which is not the actual price of these 500 poles. They just chose to use a dollar a pole,
5575 they could have used just as well $1.50 or $2.00 but they choose to use $1.00 a pole.

Q. Then you mean to tell me, that a company which accounts on a first-in, first-out basis for such materials coming from its storehouse does not by that method show its actual costs on its books?

A. The company will show the actual cost on the books at the time they exhaust the 3,000 poles.

Q. Well, we are not at that time yet, Mr. Antonelli, we are still at the 500 poles in the pole line.

A. No; they don't show the actual cost of these 500 poles, no, sir.

Q. That would apply equally, would it, to company "C" which is a new company we are going to bring in now which accounts on a last-in, first-out basis? Under your approach, if that company accounted for 500 poles, all other conditions being the same as those you have been discussing, on a last-in, first-out basis, its books would not show the actual cost of its property? Is that correct?

A. No, sir; that is just a bookkeeping method of keeping the books.

Q. So that it is your position, isn't it, that the only actual costs which exist in such a situation are average costs? Is that correct?

A. I think it is about the best method that you could
5576 use——

Q. (Interposing.) No, I am not interested in what you think is the best method, Mr. Antonelli, at this point. I am asking you whether it is your position that the only actual costs in such a situation are the average costs.

Mr. MILDE. Well, I object to that question, he has just answered it.

Mr. SLAFF. No, he definitely skidded away from answering it, that is why I repeated it.

The WITNESS. Well, as far as I am concerned personally, I think the average gives you about the best results.

By Mr. SLAFF:

Q. That is apparent as I understand your testimony, Mr. Antonelli, but I am asking you if it is also your position that that average cost is the only actual cost?

A. Inasmuch, as the poles were not tagged, they were all mixed up and you spent $3,000 for the poles, I think the average is the best method to take the poles out of the warehouse.

Q. Mr. Antonelli, confining yourself to the 500 poles in the pole line, will you tell us whether it is your position that the only actual cost of those poles is the average cost?

A. The actual pole cost is the $3,000, now if the company is going to take them out and what they want to do with it,
5577 of course, is a problem of accounting policy.

Q. Perhaps you don't—do you realize we are confining ourselves to the 500 poles in the pole line?

A. Well, in the case of the 500 poles I think, as far as I know now, the only method would be the average cost.

Q. And I am not sure that your answer is quite complete. Do you mean, Mr. Antonelli, that the only actual cost of those poles is the average cost?

A. Under the circumstances I say yes.

Q. So that in the illustration that we have been discussing a company which accounts on a first-in, first-out basis or accounts on a last-in, first-out basis does not state its actual costs on its book. Is that correct?

* * *

5579 The WITNESS. I don't know in this case what the answer would be, but, as I said before, that wasn't the way I derived my original cost.

By Mr. Slaff:

Q. That is thoroughly patent, Mr. Antonelli, and I think yo have explained several times how you derived your original cos and what we are doing now is trying to test the validity of you determination.

Now, we know that isn't the way you did it. Now, then, can yo tell us, directly, Mr. Antonelli, whether in this situation in you view a company which accounts in this type of situation on th first-in, first-out method or on the last-in, first-out method is o is not stating on its books the actual cost of its property?

A. I don't know, I can't tell you because in that thing I did I didn't have any occasion to use that kind of a method. I had th actual cost.

Q. You had occasion to determine actual cost, did you not?

A. Yes, sir.

5580 Q. As you conceived it?

A. Yes; I did.

Q. And you had, then, to determine what was actual cost or if there was actual cost or if there was more than one way of stating actual cost, is that right?

A. Yes; I tried to determine the actual cost from the company records to the best of my ability, yes.

Q. And you had to determine in your own mind whether there was simply one way of stating actual cost or more than one way of stating actual cost. Isn't that correct?

A. Well, my actual cost was a matter of fact. I did find it in the company records, it was recorded, it shows that the company paid so much for certain items.

Q. Now, Mr. Antonelli, will you please answer my question! You had to determine in your own mind whether there was just one way of determining actual cost or more than one way of determining actual cost, isn't that right?

A. Yes.

Q. And you came to the conclusion, as I understand it, that there was only one way of determining actual cost?

A. Yes.

Q. Now then, in the illustration which we have been discussing, will you tell us whether in your view the company which accounted for the 500 poles we have been discussing on the first-in, first-

5581 out basis or the company which accounted on the last-in, first-out method would or would not be stating its actual cost of those poles on its books?

A. From the standpoint of actual cost, both of the methods are wrong and if I had a case like that I would try to remedy it to get the actual cost by going back and finding and trying to determine what was the actual cost. If I couldn't have gotten it, I would have tried to estimate it. I wouldn't use the first method or the last method.

Q. And is it your view, then, if you can answer the question specifically and directly, that the company which accounts on the first-in, first-out method and the company which accounts on the last-in, first-out method are not stating on their books the actual cost of that property?

* * *

5582 The WITNESS. My answer is no, they are not, in this illustration.

* * *

5583 By Mr. SLAFF:

Q. Mr. Antonelli, we were discussing, before lunch, an illustration which I had put to you in connection with your statements respecting the ascertainment of actual cost and what is actual cost, and so on, and I should like to continue along that line with a somewhat different problem for you.

Using our three companies, A, B, and C, will you assume the following: that identical properties are about to be constructed in the illustration; that utility A capitalizes interest during construction only on jobs which take 30 days or more and which cost $5,000 or more; that utility B capitalizes interest during construction only on jobs which take 30 days or more and which cost $2,000 or more, and that utility C capitalizes interest during construction only on jobs which take 60 days or longer, and cost $4,000 or more. 5584

Now, before going into the questions that I want to develop in that specific example, I would like to ask you whether there is anything unusual in the type of situations which I have given you?

A. No, sir.

Q. In other words, those are normal accounting practices within the natural gas industry?

Mr. MILDE. I object, unless he qualifies this witness to testify as to normal accounting practices in the natural gas industry. He hasn't been presented as an accountant.

Mr. SLAFF. You qualified him on that specific matter, in his Exhibit 20, when he specifically spoke of how he had used interest during construction in this case. Not finding specific records on the company's books, he assumed, as I recollect, interest during construction on jobs of 30 days or more and costing $5,000 or more.

Of course, if he wasn't qualified to make that assumption, then I move to strike all his direct testimony in that respect.

Mr. MILDE. That wasn't the question you asked him. You asked him as to general accounting practices in the natural gas industry. If you want to qualify him as to his experience and knowledge of the general accounting practices in the natural gas industry that is up to you, but that isn't a part of his direct testimony.

5585 By Mr. SLAFF:

Q. Mr. Antonelli, do you know anything about accounting practices in the natural gas industry?

A. No, sir.

Q. Do you mean to tell me you testified here on orignial cost without knowing anything about accounting practices in the natural gas industry? Is that what you are telling us?

A. I determined the original cost of this property.

Mr. SLAFF. Mr. Examiner, may we have the witness instructed to answer this question?

* * *

TRIAL EXAMINER. You may answer the question.

The WITNESS. I say that I do not know about the accounting practices of the gas industry. I did not have to know the accounting practices of the gas industry because my job was to determine the original cost from the company's records, and I went to these records and got the original cost of each item; and the accounting practices were not involved or did not concern me at all.

5586 By Mr. SLAFF:

Q. Didn't you testify that you followed the accounting principles in the Federal Power Commission system of accounts and the West Virginia system of accounts?

A. Yes, sir; as much as possible, and as I said before that was in connection with classifying the properties in accordance with the new code of accounts.

Q. And do you mean to tell us, Mr. Antonelli ——

* * *

The WITNESS. And I did that, I set up all the properties and classified the properties, using these new accounts and including in each account what was said in the code of accounts; yes, sir.

By Mr. SLAFF:

Q. Mr. Antonelli, are you telling us now that you claim to have followed the accounting principles as laid down in those two systems of accounts, without knowing anything about the accounting practices in the natural gas industry?

A. Well, what do you mean by "accounting practices"?

Q. You told us a few minutes ago that you didn't know anything about the accounting practices in the natural gas industry. What did you mean when you said that?

A. By that I meant whatever the policies were of the
5587 various companies. Each company might have a different policy and a different way of setting up their books.

Q. You didn't go into the specific policies of each company, is that right?

A. Well, I am referring to the Hope Company.

Q. Well, do you know anything about general accounting practices in the natural gas industry?

A. I didn't have to know.

Q. Well, do you, or don't you?

Trial EXAMINER. Please answer the question.

The WITNESS. No, sir; I don't know.

By Mr. SLAFF:

Q. And we can rely on that last answer of yours, Mr. Antonelli, in evaluating your testimony in this case, can we?

A. Well, my testimony——

Q. (Interposing.) No, no—will you answer this question which I have just put to you? Can we rely on this last answer of yours as being a true and correct answer in evaluating your testimony in this case?

Mr. MILDE. I object to that type of question.

Mr. SLAFF. There is nothing objectionable about it.

Mr. MILDE. Who is "we," and what do you mean by "evaluating"?

Trial EXAMINER. The objection is overruled.

The WITNESS. Will you read the question, please?

5588 (The question was read by the reporter.)

Mr. Milde. I wonder if it wouldn't be fairer to the witness to hear the preceding question and answer?

Mr. Slaff. By all means.

Trial Examiner. Read the preceding question and answer.

(The reporter read—Line 6 to Line 14, inclusive, page 5387—as follows:)

"Q. Well, do you know anything about general accounting practices in the natural gas industry?

"A. I didn't have to know.

"Q. Well, do you, or don't you?

"Trial Examiner. Please answer the question.

"The Witness. No, sir, I don't.

By Mr. Slaff:

"Q. And we can rely on that last answer of yours, Mr. Antonelli, in evaluating your testimony in this case, can we?"

The Witness. I again say that I did not have to know—

By Mr. Slaff:

Q. (Interposing.) Mr. Antonelli, will you please listen to the question and will you please try to answer the question which I have put to you?

Mr. Slaff. Will you read it again?

(The following was read by the reporter:)

"Q. And we can rely on that last answer of yours,
5589 Mr. Antonelli, in evaluating your testimony in the case, can we?"

The Witness. I can't answer that question. I don't know how you want to rely on it.

By Mr. Slaff:

Q. I will tell you what I mean. Can we accept that last answer as a true and correct answer on your part in evaluating your oral testimony?

A. My answer was that it wasn't necessary for me to know the accounting practices ——.

Trial Examiner (Interposing). That doesn't answer the question, Mr. Antonelli.

Mr. Milde. Well, it is a perfectly unfair question because it assumes that this witness doesn't tell the truth every time he answers a question—and he does.

Mr. Slaff. No; I want him, just as you have pointed out, to realize fully what the last question was and the answer that he

made, and on that basis I want him to tell us whether we can rely on that in evaluating his testimony as a true and correct response.

Mr. Milde. Well, that is no way to ask a witness a question or to arrive at the result that Mr. Slaff wants to reach—"Can we rely on it?" That is perfectly unintelligible. If he wants to say to the witness: "Well, now, do you understand fully
5590 that last question and is your answer a full and complete answer, and do you understand what you are saying?", that is all right, but when he says, "Can we rely in evaluating"—that is perfectly meaningless to any witness, who isn't a lawyer, I would say.

Trial Examiner. All right, let's see. Do you understand the question, Mr. Antonelli?

The Witness. Yes; I do.

Mr. Milde. Well, then, answer it.

Trial Examiner. It seems to be meaningful to him.

The Witness. Well, I don't know how to answer it, Mr. Examiner.

Trial Examiner. Well, it seems to me that if you understand what the question means it shouldn't be difficult to answer.

The Witness. But, as I said before, it wasn't necessary for me to know anything about ——

Trial Examiner (Interposing). We understand your position in that respect all right; that is entirely clear.

The Witness. Well, with the qualification that it wasn't necessary for me to know the policies and accounting practices of the company, I will say "Yes."

By Mr. Slaff:

Q. All right. You do know something about interest during construction, don't you?

A. Well, I applied these interests to these various costs.

5591 Q. And you do know, or purport to know, something about actual costs, too; that is correct?

A. Yes, sir.

Q. All right. Now, you have before you the assumptions I have given you with respect to these three utility companies, do you?

A. Yes, sir.

Q. Now, will you assume also that the cost of money to all companies is the same, 6 percent per annum?

A. Yes.

Q. Now, let us assume that an identical construction job is done by you for the companies, and the job lasts 60 days and costs $2,500. Now, will you tell us what is the cost of that job to each of the three companies?

Mr. Milde. Well, again, I object to that question unless we have the cross-examiner state what type of cost he means.

Mr. Slaff. Why, Antonelli's actual costs.

The Witness. The job costs, you say, $2,500?

By Mr. Slaff:

Q. Yes, $2,500.

A. And you want to find the interest?

Q. No, no; that is inclusive of all costs other than interest, if any. Now, I want you to tell me the actual cost of that job to Utility A, to Utility B and to Utility C?

A. Let me see now if I understand your problem. On
5592 A Company the interest was 30 days, capitalized 30 days, and the amount should be $500 or over?

Q. $5,000 or over.

A. Yes, sir. The second one was 30 days and the amount was $2,000 or over?

Q. That is right.

A. And third was 60 days, and the amount was $4,000 or over?

Q. That is right.

A. And the problem was that you had a two months' period now?

Q. Yes, at a cost of $2,500.

A. On the first one, inasmuch as the amount is less than the $5,000, there will be no interested included.

Q. So the cost would be $2,500?

A. $2,500.

Q. The actual cost of that construction?

A. That is, under your assumption.

Q. That is right. Now, how about the second one?

A. The second one—it is 30 days and you allowed me $2,000 or over. Therefore, for the first $2,000 you don't have to pay interest, and you are going to pay interest for the $500, and the interest you pay on the $500, you pay—I assume under your
5593 illustration—for a month, and it would be $25 extra, making the amount $2,025. That is the assumption that you make. On the third case, you have 60 days and $4,000. There;

fore, you pay interest on the $2,000. On the last company, you don't pay any interest at all.

Q. Well, I think we are in agreement, Mr. Antonelli, as to your answer and your method with respect to Utilities A and C, the first and the last, so let's just review that. With respect to those two, the actual cost of that job is $2,500; is that correct?

A. Yes.

Q. Now, let's go to Utility B. Before putting that question, let me put this question to you: When you, in your original cost study, capitalized interest during construction on jobs costing $5,000 or more, and lasting 30 days or more, suppose a job costs $6,000 and lasted 60 days, what interest did you capitalize?

A. I assumed that the money will be—that we will have to have half of the interest— you don't need all the money at the beginning and we will need only half of it at any time. In other words, use 3 percent instead of 6 percent per annum.

Q. On the full amount?

A. On the full amount.

Q. Now, with respect to the company which I have designated as Utility B in the illustration which I have given

5594 you, will you tell us again what the actual cost of that job is, and how you arrived at it?

A. I was using your method, now.

Q. Using the assumptions that I gave you.

A. I said that I assumed that you told me to use 6 percent——

Q. (Interposing) Per annum?

A. Per annum.

Q. That is right.

A. And I just did that—I used half a percent per month. But in my case, in the original cost I used a quarter of a percent.

Q. I realize that. Will you tell us in this illustration I have given you, again, what is the actual cost of that job to Utility B?

A. It will be $2,000 plus one month's interest on the $500. Based on your assumption that would be $2,025; based on my assumption it would be $2,012.50.

Q. Well, in any event, Mr. Antonelli, is it true that in such a case you get a different actual cost for the same job for one utility than for another?

A. No, sir.

Q. Well, perhaps I misunderstood you, but did you tell us that the actual cost of the job for Utilities A and C was $2,500?

5595 A. Yes.

Q. Did you tell us, now, that the actual cost of the job for Utility B is either $2,525 or $2,512.50?

A. That is right, because——

Q. (Interposing.) All right——

Mr. MILDE (interposing). Let him finish.

Mr. SLAFF. Go ahead, if you want to expain it.

The WITNESS. No; that is all right.

By Mr. SLAFF:

Q. So, as I understand it, you do have one actual cost for the first utility and a different actual cost for the same job for the second utility; isn't that correct?

A. You are to B now?

Q. Surely.

A. Yes; but in one instance I assumed that the money was available, you had the money at the beginning to start the job and you had to pay interest right before you started the job; and on the other I assumed that the money was available as you needed it, and you didn't need to have all the money at the beginning or all at the end.

Q. Perhaps you don't understand me, Mr. Antonelli.

Confining ourselves now to a comparison of Utility A and Utility B, in one case you tell us the cost is $2,500, the actual cost, and in another case, using your method, $2,512.50, is that correct?

5596 A. Well, that was again an accounting practice of the company, and it was due to the way the company chose to do their work.

Q. Surely, and it was, in both cases, the actual cost of the property to the utility, was it not?

A. No; I wouldn't say that.

Q. Now, then, you want to change your answer, as I understand it, to the effect that one of those costs is not the actual cost to the utility involved; is that so?

A. Well, it all depends on what the company decides to do. They both might be actual costs, it all depends on what the company did actually spend.

Q. I have told you, Mi. Antonelli, just exactly what the company spent and what the company in each case decided to do.

* * *

5597 Q. All of the conditions, Mr. Antonelli, are the same,
5598 except as I have told you and as I originally told you, the decision of each of the companies as to the type of job on

which they will capitalize interest during construction. Now, with that in mind, do you want to change any of your previous answers as to what was the actual cost to any of the companies involved?

A. I still say the actual cost was what actually the company's decision was to handle this matter and how they spent.

Q. Now, then, tell us in dollars what was the actual cost of the property to Utility A?

A. Well, under the method chosen by the company, it will be $2,000.

Q. $2,500, you mean?

A. $2,500, yes, but of course that was just the bookkeeping method that the company chose to follow.

Q. Well, is that, or is that not, in your judgment, the actual cost of that property to that company?

A. That is the cost that the company will show on its books.

Q. Is it, or is it not, the actual cost of that property, Mr. Antonelli?

A. Well, somebody must have paid some more money for the interest, or somebody lost the interest. So I would say that it isn't the actual cost.

5599 Q. It is not?

A. No; it is not the actual cost.

Q. Now, then, with respect to the second company, what is the actual cost?

A. The actual cost will be, under the assumption, providing the company secured the money at—say it had to have only part of the money to start with and part of the money during the construction, the actual cost will be $2,500 plus the interest of $12.50 or $25.

Q. And if I understand in your last answer before this one, you then did not determine the actual cost of the Hope Company property; is that correct?

A. Yes; I did.

Q. Was there any cost on jobs of less than $5,000 and less than 30 days of construction time for interest?

A. No; but the reason for that was because the jobs were so small——

Q. (Interposing.) Was there or was there not?

Mr. Milde. Let him continue his answer.

The Witness. And we didn't feel that the amount involved would warrant the time it would take to calculate this interest.

By Mr. Slaff:

Q. Well, regardless of your emotions in the matter, Mr. Antonelli, were there or were there not costs for interest during construction of the Hope property on jobs of less
5600 than $5,000?

A. No, sir; there were not, and I would like to qualify my statement and tell you why.

Q. Well, let me understand. You are telling us that those costs did not exist; is that right?

A. The costs did exist but we didn't bother showing them.

Q. I realize that you didn't show them, but I am asking you whether or not the costs for interest did exist on jobs that cost less than $5,000 to Hope?

Mr. Milde. I object; he has just answered that question.

Mr. Slaff. He started to answer it.

Trial Examiner. If I understood it right, he didn't answer it as he intended to.

Mr. Milde. Maybe not.

Trial Examiner. If I am not mistaken, he has two answers to the question already.

Mr. Slaff. The answer has been both ways now, and I would like to have a majority opinion from the witness.

Mr. Milde. I don't think it has been answered both ways.

Mr. Slaff. Well, suppose you tell us whether or not on jobs that cost less than $5,000 in the Hope system there was a cost for interest incurred by Hope?

5601 The Witness. We are referring now to my original cost?

By Mr. Slaff:

Q. No; was there in the history of the Hope Company, on jobs that cost less than $5,000, a cost to Hope for interest?

A. There must have been; somebody furnished the money.

Q. All right. And your exhibit does not show that; is that correct?

A. Yes, sir; and I explained why.

5602 Q. That is right. So that, to that extent at least, your exhibit does not show, in your own eyes, the actual cost of the Hope properties; isn't that correct?

A. Well, we did that on account——

Q. (Interposing.) No, no; is it or is it not correct, Mr. Antonelli?

The WITNESS. Read the question, please.

(The question was read.)

The WITNESS. It does not show the interest for properties constructed taking less than one month or costing less than $5,000.

By Mr. SLAFF:

Q. Mr. Antonelli, you told me in the hypothetical case I gave you that $2,500 was not the actual cost of the property constructed to Utility A, did you not?

A. Yes.

Q. Now I am asking you——

A. (Interposing.) That was a hypothetical question you were asking.

Q. Why, of course.

A. All right.

Q. And I am asking you if, on the basis on which you answered that question, it is not a fact that your Exhibit in this case does not show the actual cost of the Hope
5603 Company properties?

A. I say that it does show the actual cost of the Hope Company properties, and the only reason that we did not show the interest on properties constructed, in less than 30 days and costing less than $5,000 was from a practical standpoint it would have taken a great deal of time to determine that amount and to calculate it. It didn't amount to very much. That is why we left it out. It is just a conservative answer.

Q. So that your determination of actual cost of the Hope Company properties depended, to this extent at least, on the choice which you made with respect to a matter of accounting discretion, did it not?

A. No, sir; no accounting discretion came into the picture.

Q. Tell me this. Was it a matter of accounting discretion as to whether you would take jobs costing $5,000 and taking 30 days or more to construct, or jobs costing $6,000 or $7,500, and taking the same time to construct?

A. Well, I confined myself to the $5,000 jobs, because I thought that would give about the best results.

Q. Wasn't that a matter of discretion as to which amount you would take, and what period you would take as a basis for capitalizing interest during construction?

A. I didn't capitalize any interst during construction, I just determined the original cost and could have used——

5604 Mr. SLAFF (Interposing). Mr. Examiner——

Mr. MILDE (Interposing). Let him continue.

Mr. SLAFF. Go ahead.

The WITNESS. I could have started with a dollar and I could have started with something else, but in my estimation I thought that $5,000 and the one-month period were about the best basis to use.

By Mr. SLAFF:

Q. And that was a matter of choice with you, of discretion with you, was it not?

A. A matter of judgment; yes.

Q. And that matter of judgment involved a matter of essentially accounting judgment, how the transaction should be accounted for, did it not?

A. No, sir.

Q. Is the computation of interest during construction in the utility industry an accounting matter, Mr. Antonelli?

A. I don't know.

Q. Do you know anything about the operation of natural gas companies, Mr. Antonelli?

A. No; I am an engineer; no, I don't, as to the operations. I don't know just exactly what you mean by "operations." Let me get that straight.

Q. Do you know anything at all about the office operations of a natural gas company?

5605 A. Well, I have been around them.

Q. I mean, besides going through and saying "hello" to the boys?

A. I worked right in the company's offices; yes, sir.

Q. Now don't you know that the determination of the amounts to be charged as interest during construction in the routine operation of a natural gas company is a matter of accounting judgment?

A. Well, it might be, but that is not the way I did it.

Q. I think we are entirely convinced, Mr. Antonelli, that that is not the way you did it.

* * *

5606 By Mr. SLAFF:

Q. Now then, Mr. Antonelli, don't you know that it is a matter of accounting judgment or discretion to determine what

basis shall be used for the capitalizing of interest during construction?

A. Companies do that, I don't deny, but in this case——

Q. (Interposing.) You don't do it, we know.

A. I followed my judgment.

Q. We know that. Well, go ahead, have you got something more to add?

A. And we used this $5,000 and 30 days and 6 percent, after a study as to interest rates on the construction done by Hope.

Q. So that it is a fact, Mr. Antonelli, is it, that your determination of original cost, in this respect, at least, depended upon the discretion which you exercised with respect to an accounting matter? Now that is so, isn't it?

A. No, sir.

Q. You did exercise a discretion with respect to the basis for capitalizing interest during construction, did you not?

A. I just found the additional——

5607 Q. (Interposing.) No, no, ——

A. (Interposing.) I didn't capitalize anything, Mr. Slaff. I determined the original cost, and the company did spend some money for interest, and in order to get the actual cost I did my best and added to the original cost the amount of money that was necessary for interest. That was an estimated figure.

Q. Now, Mr. Antonelli, are you telling us that in your determination of original cost, you did not capitalize interest during construction?

A. I didn't capitalize anything, I didn't do a bookkeeping job; I determined the original cost of these properties. I didn't say that the amounts were capitalized or expensed or what-not, I determined the original cost.

Q. Did you capitalize anything in your determination of original cost?

A. No, sir; I found how much this property cost as of December 31, 1938, to the Hope Company in the case of the property constructed by Hope, and its original cost in the case of property constructed by other utilities. That is all I did.

Q. All right. As the basis for determining how much should be included therein for interest during construction, you did use your discretion, did you not?

5608 A. Yes; after a long study; yes, sir.

Q. And you have told us, have you not, that the basis of determining what amounts shall be added for interest during

construction, in the operations of a natural gas company, i an accounting matter; isn't that correct, and isn't that wha you have told us?

A. As I said before——

Q. (Interposing.) No; isn't that correct?

A. I don't know if it is an accounting matter or whatnot; wasn't interested in that.

Q. Now then, are you telling us now that you don't kno whether it is an accounting matter, in the operations of a natura gas company, to determine the basis upon which interest durin construction shall be added to other costs?

Mr. Milde. May I have that question read, please?

(The question was read.)

The Witness. Maybe it is, maybe it isn't.

By Mr. Slaff:

Q. You don't know; are you telling us that you don't kno whether it is or not?

A. Well, maybe it is; yes.

Q. No, no, Mr. Antonelli. Do you or don't you know whethe it is?

* * *

5609 The Witness. I think it is an accounting matter.

By Mr. Slaff:

Q. So then, Mr. Antonelli, isn't it a fair statement to say tha in this respect, at least, your determination of that part of orig inal cost depended upon your discretion with respect to a matte that is an accounting matter in the normal operations of a natura gas company; isn't that a fair statement, Mr. Antonelli?

A. It wasn't an accounting matter as far as deciding to use percent; no, sir. In case I bought a house I have to pay 6 per cent interest, that isn't an accounting matter with me.

Q. Well, I am referring to the fact that you used a specifi basis of 30 days and $5,000 or more.

A. Yes; that was engineering judgment. We do that eve in other jobs; we do it in reproduction cost jobs.

Q. So then, you are telling us that in that particular respec your original cost determination did not in any way depend upo the exercise of your discretion with respect to a matter which i an accounting matter in the normal operations of a natural ga company?

* * *

5610 The Witness. I don't understand the question the way you have it there.

By Mr. Slaff:

Q. What part of it don't you understand?

A. Will you break it up, please, into a couple of parts, and I may be able to answer it.

Q. It is a simple question; it is one question.

Trial Examiner. Read the question again, please?

Mr. Milde. I challenge counsel to restate it

Mr. Slaff. I can restate it, but I don't choose to at this moment.

(The question was read by the reporter.)

The Witness. It is not clear to me.

By Mr. Slaff:

Q. All right. Are you telling us, Mr. Antonelli, that in no way did your original cost determination depend upon the exercise of discretion with respect to accounting matters?

A. Yes, sir, I do; I did not pay any attention to accounting principles and practices of the Company.

Q. Now confining ourselves strictly to the amount of interest during construction included in your original cost determination, will you tell us whether, in that respect, the
5611 amount of interest during construction that was used depended in any way upon the exercise of your judgement, your discretion, with respect to a matter that is an accounting matter in the normal operations of a natural gas company?

Mr. Milde. I object to that question. It is an inaccurate statement——

Mr. Slaff (interposing). It is not supposed to be a statement; it is a question.

Trial Examiner. I don't understand it to be a statement of anything. Do you understand the question?

The Witness. Well, as I make it out, he is referring to this 6 percent that I am using; is it a matter of accounting principle?

Trial Examiner. The 6 percent?

The Witness. The interest that I used was a matter of accounting principle.

By Mr. Slaff:

Q. As a matter of fact, as I have told you, Mr. Antonelli, I am referring more specifically to the basis, that is, the 30-day and \$5,000 basis that you used. In the light of that statement of mine, can you answer the question?

A. Well, I still say that the 30 days and the judgment the way we calculate interest, was based on studies made and
5612 not on any accounting practices or principles.

Q. The 6 percent was based on studies, you mean?

A. The 6 percent, yes; and the time was a matter of convenience for me to do it.

Q. That is, the 30 days and the $5,000 basis; that was a matter of convenience to you?

A. Yes.

Q. Now another engineer, equally competent to you, could have used another basis, could he not, as a matter of convenience; that is to say, let us say 45 days and $7,500; and be just as reasonable as you?

A. Yes, sir; he could have.

Q. Then he would have arrived at a different actual cost of the properties of the Hope Natural Gas Company, would he not, from the one you arrived at?

A. Yes; but this interest is not such a large amount, you know.

Q. Well, let's not worry about the size of the amount, Mr. Antonelli, at this moment.

* * *

The Witness. Well, I would like to say that this interest is not such a large amount that it will have any effect on the actual cost. After all, you know there were some estimates made
5613 in here, and to that extent maybe this actual cost is off a few dollars.

By Mr. Slaff:

Q. Well, you realize, Mr. Antonelli, that we are discussing here the principles that underlay your determination? You understand that?

A. I do.

Q. Now it is a fact, then, that there is not merely one actual cost, in your own view, isn't that so?

A. There is only one actual cost. There couldn't be anything else but one actual cost.

Q. Well, then, at least you did not necessarily determine correctly that one actual cost, is that right?

A. I determined it as accurately as I could get it; yes.

Q. And another person, using the same methods but different discretion, and exercising his judgment in different ways on matters of discretion, could arrive at another statement of actual cost which might be equally reasonable with yours; is that correct?

A. Yes; and I would say that when we determined our actual cost, we stated the conditions under which we determined it. We said that in case of interest we allowed interest for properties $5,000 and over, and taking 30 days to construct.

Q. By the way, who made that determination; was that the engineers or the accountants?

5614 As far as each one of the component parts, what about the interest, who determined that 6 percent was the proper rate of interest to use?

A. Well, that was determined after a long study as to the various interest rates paid during the history of the company, and we found out that 6 percent was about the normal interest paid.

Q. Who made the study?

A. One of our men; I just couldn't recall now.

Q. Do you have any work papers on that study?

A. I will have to refer to my working papers and see.

Q. Will you report to us whether you do or do not have any such working papers?

A. Yes, sir.

TRIAL EXAMINER. That was an engineering study, you say?

The WITNESS. It was just a study. We analyzed the interest paid in the various years, and what was the normal interest paid for that type of work way back from 1900 up to date.

Mr. REEDER. Mr. Antonelli, just to refresh my recollection, didn't you tell me in chief——

Mr. MILDE (interposing). Is this cross-examination, Mr. Reeder?

Mr. REEDER. No; this is just to refresh my recollection. Mr. Antonelli, didn't you tell me in chief that you based

5615 your interest during construction, of 6 percent, simply on the legal rate of interest in West Virginia?

The WITNESS. I don't recall offhand, Mr. Reeder, but I believe that 6 percent is the legal rate of interest in West Virginia.

By Mr. SLAFF:

Q. Well, will you check, Mr. Antonelli, and come back and tell us whether a study was made on which you based this 6 percent, and if it was, whether you have any working papers or not, or whether it is not a fact that you testified that you based your 6 percent rate on the legal rate of interest in West Virginia?

A. Yes, sir.

Mr. MILDE. Well, I submit that the only thing he has to report on is whether or not he has his working papers. He has testified

that he made the study, and whatever he said in the record before is already in the record. So the only thing he has to report on is whether or not he has working papers on this study.

Mr. SLAFF. It is all right with me, but I am suggesting for Mr. Antonelli's convenience on the witness stand that he refresh his recollection as to whether he testified in that respect.

By Mr. SLAFF:

Q. Now we made inquiry of you the other day, Mr. An-
5616 tonelli as to whether Ford, Bacon & Davis had developed certain unit costs in the 1929 Hope valuation proceedings, and whether or not you used those unit costs in connection with your original costs estimates. Have you made such an investigation?

A. Ford, Bacon & Davis did develop unit costs in their valuation of the Hope properties as of 1929, but those costs were not used or performances were not used in connection with my determination of the original costs of Hope's properties.

Q. They were not used at all?

A. No, sir; they were not.

Q. For what purpose did Ford, Bacon & Davis make those determinations?

Mr. MILDE. I object. That has no relevancy to this case.

Mr. SLAFF. Well, he testified that Ford, Bacon & Davis developed certain unit costs or performances on the Hope properties.

Mr. MILDE. In 1929.

Mr. SLAFF. That is right. I want to find out for what purpose those were made, what was the basis for making them, and then I want to find out why he didn't use them here.

TRIAL EXAMINER. The objection is overruled.

Mr. MILDE. Note an exception.

The WITNESS. They were prepared for the purpose of
5617 determining the properties of the Hope Company as of that date.

By Mr. SLAFF:

Q. For determining the properties, you say?

A. The cost of the properties.

Q. And those were determinations based on the best knowledge and information and judgment of Ford, Bacon & Davis as of that time, of performance in construcing Hope properties; is that correct?

A. Yes, sir.

Q. And what did that study embrace?

A. What study?

Q. That Ford, Bacon & Davis made of performances on the Hope system?

A. Well, they just developed unit costs.

Q. Well, did they make a study of performances of labor in the Hope system?

A. Well, I can't answer that question, I didn't make that study then.

Q. Did you determine, Mr. Antonelli, at any time, in connection with this present study you have been making for the last several years, what Ford, Bacon & Davis did in that 1929 determination?

A. Other people worked on that job; I didn't.

Mr. SLAFF. Mr. Examiner, will you please instruct the witness to answer the question?

5618 TRIAL EXAMINER. Answer the question.

* * *

The WITNESS. Determination of what?

By Mr. SLAFF:

Q. O. K. Mr. Antonelli, you have testified that Ford, Bacon & Davis made certain labor performance determinations in connection with their 1929 valuation of the Hope property; is that right?

A. Are we referring now to structures?

Q. I am referring to anything in the Hope system.

A. As far as I can see, they did make studies, yes, sir; they must have made studies in order to price the properties as of that date, because that is the way we do our work.

Q. Now at any time in connection with your original cost study in this proceeding, up to this proceeding, did you investigate the records of your firm to determine what had been done by Ford, Bacon & Davis with respect to the determination of such performance units in the 1929 valuation?

A. No, sir; I didn't, but I believe that I applied the 1927 or 1929 unit costs that were developed by Ford, Bacon & Davis at those dates, to these three compressing stations that I used to equalize the Ford, Bacon & Davis performances with the actual Hope performances.

5619 Q. Mr. Antonelli, you told us on the witness stand the other day that the units of performance that you have used in connection with these three compressor stations to get your

ultimate performance in this case, came from records of Ford, Bacon & Davis covering a wide sweep of jobs, didn't you?

Mr. Milde. I object, that wasn't his testimony.

The Witness. I never said anything like that.

By Mr. Slaff:

Q. Didn't you emphasize, Mr. Antonelli, that the unit costs with which you compared these three compressor stations came from many jobs?

A. I said——

Q. (Interposing.) Did you or did you not?

A. I did not. I said it was based on studies made by Ford, Bacon & Davis.

Q. Of many jobs?

A. Yes, sir; based on their experience, I said.

5620 Q. And did you at any time, Mr. Antonelli, in that discussion of how you developed your labor performance rates in this case, tell us that you had added 25 per cent to performance rates developed by Ford, Bacon & Davis in connection with the Hope Natural Gas Company?

A. I said——

Q. (Interposing.) Did you or did you not tell us at any time in that testimony?

Mr. Milde. Well, I object to that type of question.

Mr. Slaff. It is a perfectly proper question.

Mr. Milde. "Did you tell us at any time" upon cross-examination? Mr. Antonelli hasn't charge of the cross-examination.

Mr. Slaff. And he hasn't answered in the cross-examination in my judgment truthfully in that respect, and I use that word advisedly.

Trial Examiner. Will you read the question?

(The question was read.)

Trial Examiner. Objection is overruled.

Mr. Milde. Note an exception.

The Witness. I added 25 per cent to the cost——

Trial Examiner (interposing). No; he asked you whether or not you told him that. Do you understand? He isn't asking you what you did; he is asking you what you testified to.

The Witness. I testified that I added 25 per cent to the

5621 unit costs developed, based on Ford, Bacon & Davis performances, and that is a truthful statement and I never made anything but a truthful statement here.

* * *

5617 Q. And did the Hope Company receive a copy of those performances that were developed by Ford, Bacon & Davis, in connection with their 1929 valuation and keep them in its files —the Hope Company's?

A. No; I don't think so.

Q. Now, Mr. Antonelli, with respect to your Exhibit 60, will you be good enough, for the moment, to turn—will you turn specifically for the moment to the account 372 at pages 421 and 423?

A. Yes, sir.

Q. Dealing with office furniture and equipment?

A. All right.

Q. Now, were all the items set out at pages 421 to 423 expensed by the company in the past?

A. It was impossible for me to find if all of these items were expensed, because some of these items I could not identify. There is a possibility that some of these items were capitalized, but there was no way for me to find them on the company books. The description wasn't sufficiently clear.

Q. Did you say there was a possibility that some of these books had been capitalized?

A. I am not referring to the books, I am referring to the cabinets and so on.

Q. Well, then, if any of those were capitalized on the company's books to that extent, there is duplication.

5648 A. Oh, no. There isn't duplication. If this was on the books and I wasn't able to identify it, I left it out. I didn't take anything on the books that I couldn't identify. I prepared an inventory in the field and then reconciled it to the books, and if I didn't find the item and I wasn't sure that is the item excluded, I didn't use it.

Q. Well, if any of these were not on the books, what adjustment did you make in the account, or did you estimate the entire account?

A. If I didn't find it on the books I excluded it and didn't use it at all.

Q. Now, with respect, for a moment, to the law book costs which you shown on there, totaling, I think—oh, well, whatever it does total?

A. It is about $14,000.

Q. Yes. Where were those costs charged in the past?

A. They were charged to operation.

Q. To an operating expense account; is that correct?

A. Yes, sir.

Q. And does the company still continue that practice?

A. I don't know.

Q. Now, assume that the company does still continue that practice, Mr. Antonelli, of expensing law books purchased and you were bringing your inventory down to June 30, 1941, the
5649 law books have been purchased between the date of your
estimate and ~~June 30~~, 1941, would you include in the cost of the property brought down to June 30, 1941, the cost of the books purchased between December 31, 1938, and June 30, 1941?

A. If I were determining the actual, original cost of these properties, regardless of what the company is doing on their books; yes, I would.

Q. Then your answer to my question is yes; is that correct?

A. Yes. I——

Q. (Interposing.) If you are bringing your original cost determination down to June 30, 1941, you would include within the original cost the amounts that had been expensed by the company from January 1, 1939 to June 30, 1941 for law books, and charge to operating expense; is that correct?

Mr. MILDE. If they still exist in 1941?

Mr. SLAFF. Certainly.

A. Yes; if I were determining the original cost as of that date I would include them; yes, sir.

By Mr. SLAFF:

Q. And that you would do under the prevailing system of accounts, to wit: The West Virginia System of Accounts and the Federal Power Commission System of Accounts, applicable to the Hope Natural Gas Company?

A. I didn't say anything about the accounts now. You
5650 asked me if I would bring in the original cost—my original cost. Now in the prevailing accounts that is something else.

Q. Well, I mean, you realize that the West Virginia System of Accounts has been effective since January 1, 1939, and the Federal Power Commission System of Accounts has been effective since January 1, 1940; you realize that?

A. Yes, I do and——

Q. (Interposing.) And you answered——

Mr. MILDE (interposing). Has he finished——

Mr. SLAFF (interposing). Well——

The WITNESS (interposing). Go ahead.

By Mr. Slaff:

Q. (Continuing.) And you made your previous answer in the light of that knowledge and realization?

A. Yes, I did, but at the same time, as I said before, you asked me to bring this original cost up to date for the purpose of determining the complete costs of the properties. Now, I wasn't speaking or referring to any accounting methods that the company is following or the way they are going to set up their books after 1939 and so on. I was referring to the original cost of the property in order to determine the complete cost of this property.

Q. So, just as you disregarded the accounting of the company, pursuant to previously controlling systems of accounts, so, too, you would in that respect disregard the presently
5651 existing systems of accounts; is that correct?

A. Well, I wasn't doing an accounting job, Mr. Staff.

Q. No, no. Can you answer the question, Mr. Antonelli?

A. I am answering it. I say that I wasn't doing an accounting job. I was just determining the original cost of these properties, that is all. This is not a bookkeeping job where you have to show the amount on the books and how much you capitalized and how much you are going to set up in an account, 107 or 100-5 and so on. This is just supposed to show what is the original cost of the Hope properties and you asked me to bring it up to a later date, and I said that I will include all of the items regardless of the expense capitalized to the company as of any date that you wish me to do so.

Q. Yes. So that the fact that the presently existing systems of accounts were not in effect as of December 31, 1938; that makes no difference in your method and in your approach?

A. Not as far as determining the actual original cost of these properties is concerned; no, sir.

Q. You think it is entirely proper, of course, I assume, to expense an item during one year and to charge it as part of the capitalized original cost of the company at the end of that year also; is that correct?

Mr. Milde: There is no testimony to that effect and if
5652 that is supposed to be a summarization of his testimony, it is inaccurate.

Mr. Slaff. I am asking him. He can tell me if it is inaccurate or an unfair summarization.

Trial Examiner. Objection is overruled.

The WITNESS. That is an accounting problem. As I stated before, I didn't try to set up the company books. I didn't care if it was expensed or if it was capitalized. I said it so many times. I just determined the original cost of these properties. That was my problem.

Mr. SLAFF. May I have the question, please?

TRIAL EXAMINER. Read the question.

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. I don't know if it is proper or improper. That is an accounting problem.

By Mr. SLAFF:

Q. I am asking you whether you consider it proper, Mr. Antonelli?

A. I didn't have to consider it.

Q. I am asking you to consider it right now and tell me whether you consider it proper or not?

Mr. MILDE. Well, I object to that. That isn't proper examination of Mr. Antonelli.

Mr. SLAFF. Do you want the record to note that I was frowning at the witness at that moment, too?

5653 Mr. MILDE. No, I didn't suggest that. You usually smile at him.

Mr. SLAFF. Of course it is thoroughly proper cross-examination to go into the basis of the theories upon which he predicated his original cost.

Mr. MILDE. Not at all. This is an accounting question and this witness has said over and over again that he isn't an accountant, he is an engineer, and this is purely a cross-examination directed to test a man's accounting knowledge or his approach to accounting problems, and Mr. Antonelli hasn't been presented in that light, and he isn't an accountant, and this has nothing to do with his testimony whatsoever.

TRIAL EXAMINER. Well, it seems to me that the witness has gone somewhat beyond engineering matters in determining the original cost in this case. He hasn't qualified as an accountant, I don't believe.

Mr. SLAFF. I certainly agree with that last statement of the Examiner's wholeheartedly.

Mr. MILDE. Well, I don't think that is quite accurate except to this extent: That he had to set up these properties in accordance with the classification as prescribed in the code of accounts. The

purpose of that was so that we could use his work in our books when the time came, when we had to reclassify and determine the original cost of our properties in accordance with the code.

5654 What he has done is determine the original cost, that is what the properties actually cost and then he has reclassified it in accordance with the method of classification prescribed in the code of accounts, but I think that is as far as he has gone into the accounting field, if that really is an accounting field.

TRIAL EXAMINER. Well, it seems to me that a study of these vouchers and all that kind of stuff is accounting, certainly to a great extent. He has had to make lots of determinations, I would imagine, that were beyond the field of engineering. As a matter of fact, the witness was qualified, was he not, as a valuation expert?

Mr. SLAFF. Yes.

TRIAL EXAMINER. Including costs?

Mr. MILDE. I think that is right. He has worked on valuations for a good many years. My objection to this question was that it is purely an accounting question.

TRIAL EXAMINER. Well, I am inclined to agree with you so far as that is concerned. I am also inclined to the view that his opinion with respect to the matter isn't going to make a great deal of difference anyway.

Mr. MILDE. I think that is right.

Mr. SLAFF. Well, that may be so, but I think it is very illuminating as to his entire approach and as to the entire approach to the company.

5655 TRIAL EXAMINER. Objection is overruled. Answer the question.

Mr. MILDE. Note an exception.

* * *

A. Well, nobody has capitalized it one year and expensed it the other year. The company did not do that. They expensed it prior to 1939 and are still expensing it.

* * *

TRIAL EXAMINER. Mr. Slaff just wants to know what you think about that.

The WITNESS. Well, it all depends on the policies of the company. It depends on what the items are and I just don't know how to answer the question, if it is proper or it isn't proper.

* * *

By Mr. SLAFF:

Q. Well, with respect to specific items that we were discussing a few minutes ago—law book, for example—do you consider it proper for the company to expense the cost of those books
5656 during the year and at the end of the current year to include those same costs as part of the capitalized original cost of the company's property?

* * *

The WITNESS. Are you talking about the same year now or —

By Mr. SLAFF:

Q. (Interposing.) That is right.

A. Will you give me an example?

Q. Sure.

A. All right.

Q. Bringing your inventory down to January 1, 1940, the company during the year 1939 expensed $1,000 for law books and charged it to expenses?

A. Yes.

Q. Now, do you consider it proper for the company, at the end of that year, to include those expenses as part of the capitalized original cost of its property?

A. Well, it might be during that year that the company thought the items should be an expense and at the end of the year they thought they had made an error or something like that.

Q. No; there is no question of error. They properly expensed them under the controlling system of accounts.

A. That still depends on the policy of the company.

5657 Q. Well, I have given you the policy of the company, Mr. Antonelli, and I want you to tell me whether you think that that is proper action?

Mr. MILDE. Well, I object to the question. Proper under what? Is it in accordance with some code of accounts or according to——

Mr. SLAFF (interposing). Any way he wants to look at it. Code of accounts, code of ethics—any code he has.

The WITNESS. Under the code of accounts, if the company has decided that this item should be expensed, I would say that it would be improper to capitalize it.

By Mr. SLAFF:

Q. I see. Then I understand your present testimony to mean that you consider it improper to capitalize items which have

previously been expensed by the company exercising its discretion under a controlling system of accounts, is that correct? (Objection overruled.)

* * *

5658 A. Yes, sir.

By Mr. Slaff:

Q. And that applies, of course, not only to the specific account that we were discussing, but throughout?

Mr. Milde. Same objection.

By Mr. Slaff:

Q. I mean, you weren't confining that to a specific account, were you?

Mr. Milde. Same objection.

Trial Examiner. Objection overruled.

A. No, sir.

* * *

6250 Peter Antonelli was recalled as a witness, having been previously sworn, was further examined and testified as follows:

Cross-examination by Mr. Slaff:

Q. Mr. Antonelli, one of the matters we were discussing the other day was what the basis for your use of 6 per cent as the rate which you used for interest during construction was. Do you remember that?

A. Yes, sir; I do.

Q. And it is a fact, is it not, that you used 6 per-cent for interest during construction as being the legal rate of interest in the State of West Virginia?

A. Yes, sir.

Q. And that determination of 6 percent as the interest rate was upon that basis and not upon any study of cost of money to the Hope Company in the past; is that correct?

A. I looked over my papers and I find that the legal department of Hope was instructed to make a study as to the various rates, and what was the legal rate in West Virginia, and that is what I had in mind when I said that there was a study made up.

6251 Q. Yes, but the study was, as you have just testified of the legal rate of interest, statutory rate of interest in West Virginia, and not of any cost of money expense of the Hope Company; is that correct?

A. That is correct.

Q. As a matter of fact, construction by the Hope Company was financed primarily out of its own funds, isn't that so?

A. I don't know how they were financed.

Q. You just——

A. [Interposing]. I never had occasion to find out.

Q. I see. Now, with respect to your testimony that many of the items contained in Exhibit 60 were inventory adjustments, you recollect that testimony, do you not?

A. Yes, sir.

Q. Did you have in your Exhibit 20 a statement of the inventory adjustments contained in column 6 of Statement "B," page 31; is that right?

A. Yes, sir.

Q. And you furnished, did you not—and the net amount of the inventory adjustments was a red figure of $1,804,000, is that not correct?

A. That is correct. As far as property constructed by the
company is concerned, and property purchased from non-
6252 utilities or from utilities where not an operating unit of
the system, yes; that is correct.

Q. Now, you furnished, did you not, to the Commission's staff, a breakdown of that figure, showing the total gross debits, and the total gross credits involved?

A. I recall furnishing a statement of that type; yes, sir. I just can't picture it now, what it looks like, but——

Q. [Interposing.] Well, will you examine those sheets which I hand you [handing], and ask you if that is the breakdown which you furnished the Commission staff?

A. Yes, sir.

Q. And those contain—those show, do they not, a total of—strike that. What amount do they show as debit, and what amount as total credit figures?

A. It shows as debit figure $4,383,474.28, and as credit $6,187,867.76.

Q. Leaving the net credit of $1,804,000 shown in your Exhibit 20; is that correct?

A. Yes, sir; as far as property constructed by the Hope Company is concerned, or purchased from nonutilities.

Q. The debit amount of four million odd represents properties, cost of properties, which you have added to the capitalized cost.

the book cost, of the Hope Company properties; is that right?

6253 A. No; that is only a correction to the company records, a property that was found on the company—I mean, that were on the company books but not found in the field. Now, properties that were found in the field and not found on the books, they came under direct material and labor cost, not capitalized cost.

Q. [Interposing.] What does the debit amount of four million odd represent?

A. That represents adjustments of all kinds that were made on the company records. It isn't only an inventory adjustment now.

Q. But that does include inventory adjustments, does it not?

A. Yes, is does.

Q. And the total debit figure, including those inventory adjustments, is, as you stated, some four million dollars odd; is that correct?

A. Just a moment. Yes, it does. The inventory adjustment is only $406,000 out of it.

Q. In addition to those inventory adjustments, however, as I understand your position now, after your testimony of July 7, there are still additional inventory adjustments to be made; is that correct?

A. I would like to make an explanation in connection with the previous question. This $4,000,000 debit is made
6254 up of all kinds of debits. You understand that. The adjustments that were made are as follows: Elimination, depreciation capitalized on property purchased, inventory adjustments, transfers from and to utility plant in service accounts, transfers to other accounts.

Trial Examiner. They are all debit items?

The Witness. That is right. I want to make sure that that is not all inventory adjustment of four million dollars.

By Mr. Slaff:

Q. Have you completed your answer?

A. Elimination of capitalized unproductive deeper drilling, elimination of arbitrary rig charges, other kinds of adjustments and miscellaneous adjustments, and so on. I want to make that clear before we go ahead.

Q. Yes, of course. All those adjustments are developed from the inventory which you made of the property of the Hope Company; that is correct, is it not?

A. All of those adjustments are adjustments made to the company books.

Mr. Slaff. Will you please repeat my question?

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. No; that is not correct.

6255 By Mr. Slaff:

Q. Well, why did you change the books? What was there that led you to change the figures stated on the books?

A. Well, we reconciled the books with an inventory that was made in the field.

Q. All right.

A. I am not done yet.

Q. Go right ahead.

A. And the amount that is reflected in this $4,000,000 is a correction to the books.

Q. Certainly.

A. To that there were other inventory adjustments which were not included in the company books, and which were included by me on these direct material and labor costs not previously capitalized.

Trial Examiner. These adjustments were made then in order to reconcile the books with the inventory; isn't that correct.

A. As far as we can do it from the books, but there were other inventory adjustments. For instance, we went out to the field, we might have have found a house, and that house was not shown on the company books, not included in any place in the company books. Therefore I included it under the direct material and labor costs. It is included in that Exhibit 60 that we have been talking about

6256 By Mr. Slaff:

Q. Mr. Antonelli, do you have any such type of cost included in your inventory adjustments in column 6 of Exhibit 20, as you have just stated to the Examiner?

A. What type of ——

Q. Property which you found out in the field which did not appear on the books. You have such adjustments in the totals included in column 6 of Exhibit 20, don't you?

A. I might have some that I was certain that the company capitalized; yes.

Q. Yes, well, then ——

A. [Interposing.] I might. I don't know. I would have to search in my items to find them. I can't tell you offhand. There must be some.

Q. If it wasn't on the books, Mr. Antonelli, how was it capitalized?

A. I will tell you an example of that.

Q. Yes.

A. For instance, in a compressing station, we found a pump in the field and it was not found on the books. However, on the books we found a pump with another serial number. We weren't sure that was the pump that we were talking about and, inasmuch as the policy of the company has always been to capitalize pumps (we never found a pump expensed) we
6257 did include the pump in this adjustment column as a correction to the books. That is the only kind of examples that were included under the adjustment column.

Trial Examiner. Didn't you assume that that pump had already been capitalized?

The Witness. No, because—yes; but inasmuch as we didn't know what pump it was we eliminated—we included in our inventory everything that we were able to say a hundred percent that that was the item. Now, we eliminated from the books all items that we couldn't a hundred percent tie down to serial numbers or something like that.

Mr. Milde. In that illustration, Mr. Antonelli, you would write out in the books a pump without a serial number?

The Witness. Yes.

Mr. Milde. At whatever cost it was?

The Witness. That is right. And substitute this one that I found out in the field.

Mr. Milde. With whatever its voucher cost was?

The Witness. That is right. No duplication or ——

Trial Examiner [Interposing]. All right.

By Mr. Slaff:

Q. So you did, of course, deem it important in your determination of original cost to make a careful study of the com-
6258 pany's prior practices with respect to either capitalizing or expensing items of property, did you not?

A. Well, to that extent, yes. I made a study and I did find that in case of pumps or items of that type, the company always did capitalize those items. That was part of my study.

Q. Yes; then we are in agreement, are we, Mr. Antonelli, or tell me whether we are, that in determining the original cost of a natural gas company's property, it is important to make a determination in advance of what has been the company's policy and practice with respect to expensing or capitalizing items of property?

A. Well, it did not make any difference to me as far as determining original cost. The only thing that I was very much concerned about was that I show the picture very clearly. If the company capitalized the items, we put them under the capitalized cost. If we couldn't find it, then we show it under cost not previously capitalized, or under direct material and labor cost not capitalized by the company books. That was just a matter of setting the cost at each proper column. I could have done it the other way; show one total.

6259 Q. Well, Mr. Antonelli, you didn't make that determination just for the sake of making it, did you?

A. Oh, no ——

Q. [Interposing]. You had a purpose?

A. I had a purpose and the main purpose was that when in the future the company set up their continuing property records, they could utilize all my working papers to the best advantage.

Q. And what is more, in your judgment, you couldn't come to a proper determination of original cost, according to your own lights, without making such a determination of the company's policy in the past; isn't that correct?

A. What policy are you referring to?

Q. Whether particular items were to be expensed or capitalized.

A. Well, If I found that the company had always capitalized——

Q. [Interposing]. I wonder if you can answer the question?

A. I am trying to answer it.

Trial Examiner. Read the question, please.

(The questi[illegible] was read by the reporter.)

Trial Examiner. You can answer that "yes" or "no," can't you.

The Witness. Yes; I did make a study to find out what
6260 items were capitalized and what were expensed.

By Mr. Slaff:

Q. And the reason that you made that study, Mr. Antonelli, was, was it not, that you could not come, in your own judgment, to a proper determination of the original cost of this company's property without making such a study?

A. No, sir; that didn't have anything to do with my reasoning. As I said before, the reason that I did it that way was to prepare the ground for the company to set up their books in accordance with the new code of accounts.

Q. What were they supposed to set up on their books in accordance with the system of accounts?

A. In accordance with the system of accounts they were supposed to show the adjustment—in other words, the difference between the book cost and the original cost of property constructed by the company in Account 107, Plant Adjustment.

Q. So you had to make this determination of the company's policy as to capitalizing or expensing items in the past in order that the company could properly set up on its books the original cost of its properties; isn't that right?

A. Well, I don't know that; the company set up their books in accordance with the new code of accounts.

Q. Well, can't you answer the question just as I have put it, Mr. Antonelli?

6261 Mr. Milde. Well, I submit he has answered all the questions fully, and just because you slip in a few different phrases doesn't change the answer in the slightest.

Mr. Slaff. I don't want him to change his answer; he can stick by his guns as long as he wants to, as long as he thinks his guns are right. I don't want him to change a thing, but I think he can answer the question directly.

Trial Examiner. Read the question.

(The question was read by the reporter.)

Mr. Slaff. The question is susceptible of a direct categorical answer.

Trial Examiner. They couldn't have set them up in that manner except on the basis of your study, could they?

The WITNESS. Yes; on the basis of my study they could set up their books in accordance with the new code of accounts; yes.

By Mr. SLAFF:

Q. And in accordance with that system of accounts, show the original cost of their property; isn't that correct?

A. Well, I will have to explain that a little bit. This continuing property record, or the new books, will show in one column the original cost and in another column it will show the book cost; and in another column it will show the amount that has been previously capitalized. It shows all of those three amounts. It will show the book cost, it will show the items
6262 not previously capitalized, and it will show the original
cost. It will also show the adjustment, the 107 adjustment, and it will show the 100.5 adjustment, the Plant Acquisition Adjustment.

Q. Well, I don't know that that explanation was called for by the question, but I am glad to have it on the record. Now, I would like to have the question answered, and I will repeat it for you, Mr. Antonelli. Isn't it a fact that you had to make a determination of the company's policy in the past with respect to capitalizing or expensing different types of property in order that the company might be able to set up on its books, in accordance with the presently controlling system of accounts, the original cost of its properties?

A. Yes; I did make a study to find out what items were capitalized and what items were expensed.

Q. And wasn't that study necessary for the purpose which I have just indicated?

A. It wasn't necessary as far as determining the original cost for Exhibit No. 20, no; but it was necessary for the company in setting up their continuing property records. We were trying to do two jobs at one time.

Q. But, Mr. Antonelli, in setting up the continuing property records, you have got to start with original cost, have you
6263 not, and then make your adjustments that you have been
describing?

A. Oh, you can do it many ways.

Q. Well, isn't that the way you did it?

A. Well, are you referring to the original cost or the continuing property records now?

Q. To your continuing property records, to the statement on the company's books, that is to appear on the company's books.

A. Well, in that case you show your original cost, and you show your adjustments, and you show items not capitalized,—previously capitalized, and you show 107 and 100.5.

Q. And in order to show that original cost on the company's books, didn't you have to make this determination as to what the company's policy was in the past with respect to capitalizing or expensing different types of property?

* * *

6267 The WITNESS. As far as setting up the books, I did have to make that study, but as far as determining the original cost for this Exhibit No. 20, it wasn't necessary.

By Mr. SLAFF:

Q. Now, are you planning to set up any different original cost on the company's books from what you have presented here in this case?

Mr. MILDE. I object to that.

Mr. SLAFF. Well, the reason I ask that—I have no hesitation in stating it—is because I understand that he says it was necessary, in order to set that up on the company's books, but wasn't necessary here. So, I want to know if there is any difference

6268 between what he proposes to set up on the company's books, and what he presented here, as to original cost.

The WITNESS. Well, I am just gathering information and getting—as Mr. Milde said—the figures ready, but I am not certain how those figures are going to be used.

By Mr. SLAFF:

Q. It is sort of nice that Mr. Milde said it for you, isn't it?

A. Oh, no.

Q. Mr. Antonelli, regardless of how they may be used by someone else, you have very definite ideas as to how they should be used, don't you?

A. I don't believe anybody knows just exactly how they are going to be used.

Q. No, no, Mr. Antonelli, but you have your judgment as to how the figures should be used; isn't that right?

A. Well, everybody has ideas, but as far as this case is concerned, I just don't know how they are going to be used.

Q. Aren't you posting on your continuing property records that you are setting up or proposing to set up for the company the same original costs that you show here in this case?

A. We are posting only certain columns, not all of the columns,—we are not filling out all the columns.

6269 We have posted the description, and we have posted the book cost because we know that that isn't going to change; and we have posted some other columns, but we haven't finished anything, and we are not going to finish anything until somebody decides what is going to be done with it.

Q. Now, then, will you tell me, Mr. Antonelli, whether in your judgment, as you view the situation, the original cost to be set up on the company's books is any different in your conception today from the original cost which you have presented here in evidence?

* * *

6272 The Witness. Well, my original cost is set up in such a way that it has different columns including the amounts
6273 that came from different places, and it was done with the purpose in mind that the company would pick up and choose or rearrange the columns in any form they wanted and decide what they were going to set up on their books after it was decided what "original cost" is.

Trial Examiner. After who decided what original cost is?

The Witness. Well, the company or the Commission, or after it was decided definitely what original cost was.

6274 Mr. Milde. You mean original cost under the Code of Accounts?

The Witness. Yes, original cost under the Code of Accounts. I determined the original cost, and I set up the capitalized items under the capitalized columns, and I set up the expensed items under the expensed columns, and I set up all the rest of the items in separate columns, and that is the way it is shown.

Now I can't tell what it will be, what will be the original cost as per the continuing property records, or not.

By Mr. Slaff:

Q. Mr. Antonelli, I am not asking you as to what anyone else may determine original cost to be, whether it be the court or commission or anyone else. I am confining myself solely to your judgment today, your conception today, and I am asking you whether today, in your conception, there is any difference between the original cost which you have presented here in evidence, and the original cost to be set up on the company's books? Will you please tell us?

A. As far as the totals are concerned, there wouldn't be any difference. As far as the classification, there might be. Maybe

the Commission will order certain items to be charged to 107, and others charged to 100.5, and so on.

Q. But as far as you are concerned—forget, Mr. Antonelli, please, or disregard if you will, please, what the
6275 Commission may order done or what the court, some court, may order done, and confine yourself, in your answers, just to your conception—isn't it a fact that the orignal cost, as you have presented it here in evidence, is, in your judgment, the original cost which should be set up on the company's books as you have here presented it?

A. Well, I say that the original cost is the original cost. Now I don't know how it is going to be set up.

Q. I know you don't know how somebody else is going to pick up where you left off, but I am asking you whether it isn't your judgment that the original cost which you have presented here in evidence, is the original cost which should be set up in the company's books in the same manner as you have here set it up in evidence?

* * *

6276 The Witness. I don't know what should be set up on the books. The original cost, as I determined it, I think is the right original cost, and it is set up in such a manner that you can take any kind of figures or combination of figures, but what should be set up on the books, I can't say, I don't know. It just never occurred to me, and I didn't have to know it.

By Mr. Slaff:

6277 Q. Mr. Antonelli, aren't you in charge of the company's reclassification study?

A. Yes, sir; I am.

Q. Isn't that to reclassify the amounts that should be set up on the company's books?

A. Yes, sir, and we have gone as far as we can, but we havn't finished the job, and we don't know what to do, we are waiting now.

Q. And you have a judgment today, don't you, as to whether the original cost as you have determined it, in evidence, and presented it here in evidence, is any different from the original cost which, in your judgment, should be set up on the company's books?

A. As far as the total original cost is concerned, there shouldn't be any difference, and can't be any difference. That is the cost.

But how it is going to be set up on the books, that is a different matter.

Q. Mr. Antonelli, with respect to the reclassification study which you are making for the company, and the cost of which is some several hundreds of thousands of dollars, as I understand it, don't you today have any idea as to whether there should be any variation in the detail of the original cost between the way you have presented it here in evidence, and the way it should be set up on the company's books?

A. What detail are you referring to?

6278 Q. Any detail.

A. Yes; but there are all kinds of details. Are you referring to units of property, or to costs, or what?

Q. All right, let's take the accounts to which the amount should be charged?

A. That doesn't mean anything to me.

Q. The accounts under which the amounts set up should be set up—does that mean anything to you?

A. What accounts?

Q. Do you know what gas plant accounts are?

A. Yes; and I don't understand what you mean. Are you talking about adjustment accounts or plant accounts, or what?

Q. All accounts.

A. That doesn't mean anything, now.

Q. All right, you have presented certain original cost figures in evidence here, have you not?

A. Yes, sir.

Q. Will you tell us how you set them up by accounts?

A. Do you refer to Exhibit No. 20 now?

Q. Yes; 20 and 60.

A. All right, I classified them as to kinds of property, land and rights-of-way and leases, and followed this new Code of Accounts.

Q. Now in your judgment, should those amounts be classified any differently on the books of the company?

6279 Q. Well, not knowing what the Commission is going to decide, I will have to say again that I don't know.

Q. Do you have any judgment today with respect to that? I mean, out of all the close to three-quarters of a million dollars that has been spent for reclassification today, and the spending of which, I take it, you have been supervising, do you mean that you haven't yet evolved a judgment as to whether there should

be any difference between the way the amounts were set up in your original cost study in evidence here, and the way they should be set up on the company's books?

A. Well, this here is only a determination to show the original cost for rate-making purposes, and the other is something else.

Now the other has to be set up in accordance with the Code of Accounts. Now I will tell you how that was done. I might describe the columns that we used. But that is all I can say. I haven't got any judgment of what is going to be done. I know that in one column——

Q. (Interposing.) Let me break in. Do you have any judgment as to what should be done, that is the question that I have been trying to have your answer?

A. If I knew what should be done, we could have finished the job a long time ago. We don't know.

Q. You mean you just don't have any idea of what, in
6280 your judgment, ought to be done in that respect?

A. Well, we have been trying very hard to find out what should be done.

Q. And as far as you are concerned, you are still in the dark; is that right?

A. We have all the figures, we are just waiting for a decision.

* * *

Mr. Slaff. Well, are you still in the dark, Mr. Antonelli, in your own mind, as to what should be done with respect to setting up original cost on the company's books?

A. Well, I can give you my own personal opinion. Now that is my own personal opinion. We show first the material, the labor and the overheads, and the total original cost as I
6281 determined it.

Trial Examiner. You mean as you determined it in this case?

The Witness. Yes, sir, that is recorded to the penny.

After that—it is my own opinion, now—I will show the amount that is not previously capitalized on the company's books. It will show a column which is exactly the amount of the adjusted book-cost that we have in here; and also it will show a column of the 107 adjustments which is Plant Adjustments to Property Constructed by the Company or Purchased from Non-Utilities; and another column, 100.5, Acquisition Adjustments, which is the difference between the original cost of property purchased from other utilities, and the purchase price.

Now that is my personal opinion of what should be done o the books, and the books will show my original cost, they wi show the book cost; we could get the adjusted book cost; w could get the non-capitalized items; and we could get the adjust ments, the plant adjustments, I mean; and the acquisition adjust ments.

It gives a complete picture of what was done, and that is wha we are doing, but we haven't gone beyond a certain stage becaus we don't know what to do next.

By Mr. Staff:

Q. Well, that is exactly what you have done in this case

6282 in evidence, in your exhibits here in this case, Mr. Antonelli is it not, except that certain of the columns shown on pag 31 you show, and you propose to show, in Account 107, and cer tain in Account 100.5?

A. There is no 107 and 100.5 here.

Q. That is right, you propose to show the amounts shown here in certain of the columns on page 31 of Exhibit 20, in Account 107 and in Account 100.5, on the company's books?

A. This statement here—I am referring to Statement B, now of Exhibit No. 20—shows the relation of the book cost to the original cost and also shows, separately, the property constructed by the company and purchased from other utilities, and it shows what was on its books, what were the adjustments, what was capitalized, how much was overheads, and so on.

Q. That is right. In effect, Mr. Antonelli——

A. (Interposing.) I think it is an intelligent way, at least I thought it was an intelligent way, and tried to make it so clear that anybody would understand what it is. I could have bunched all the figures and given you just original cost, and it would probably have been just as good.

Q. I am not at the moment implying that this is not an intelligent way of setting out the results that you came to. What I am asking you, if you will listen, is this: Isn't it a fact that what you have told us as to what you propose to have set

6283 up on the books, in your opinion, is just what, essentially, you have done here in your Exhibit 20, except the amounts in, say, columns 7, 8 and 9 and 10 of Statement B on page 31, will be included in Account 107?

A. No; 107 is plant adjustments——

Q. (Interposing.) Well, let me put it this way: The difference between original cost, as you determined it, and book cost

in so far as the amounts in those columns enter into that difference, will go into Account 107; is that right?

A. Well, I think it will go; I don't know.

Q. That is your judgment?

A. That is my opinion; I don't know.

Q. And the difference between purchase price and original cost, with respect to prior utilities, will go into Account 100.5; that is right, isn't it?

A. That is my opinion, that is in accordance with the Code of Accounts, that is my opinion, but I don't know if they are going to do it or not.

Q. Then if I may summarize, it is your judgment and opinion today that the original cost to be set up on the company's books is the original cost as you have determined it for purposes of this case, and as you have explained a few answers back it should be set up on those books?

A. No, sir; I didn't say that. I said how I did it, and what I thought it was going to be, and what was my personal opinion.

6284 Mr. Slaff: Now, will you read my question, please?

(The question was read.)

By Mr. Slaff:

Q. Isn't that a correct summarization?

A. The original cost that I set up in Exhibit No. 20 is to show the actual dollars paid by this company, and the amounts paid by the prior companies for property purchased from other utilities. That is the actual amount spent, what was the original cost. That was the reason for Exhibit No. 20; and the continuing property record, although utilizing all the same figures, they are set up differently, and I don't know what is going to be done with those figures.

Q. They are set up in somewhat different form, but all the basic facts and factors and figures are the same, are they not?

A. Sure they are, but as I said, my purpose was to determine the original cost of these properties, that is all, and that is all I had to do.

Q. I think you have told us that once or twice.

A. I have said it many times.

Q. Now then, in order to set up those facts on the company's books, you had to make a determination as to what had been the company's policy in the past with respect to expensing or capitalizing different kinds of property, isn't that correct?

6285 A. Well, naturally I analyzed all of the records and if I found the items under capitalized items, I put them under capitalized items. If they were expensed, I put them under expensed items. As I said before, we were trying to kill two birds with one stone. So I did find out and determine what was the policy of the company in regard to expensed items and capitalized items.

Q. And it was necessary for you to make that determination, was it not, in order to arrive correctly at your results?

A. It wasn't necessary as far as Exhibit No. 20 is concerned, no.

Q. We are talking about the costs that are to be set up, in your opinion, in your judgment, on the company's books.

A. I thought you were talking about Exhibit No. 20 all the time.

Q. Well, now, concerning yourself with the costs to be set up on the company's books, in your judgment it was necessary to make such a determination of company policy in the past with respect to expensing or capitalizing items, was it not?

A. Yes; certainly it was.

Q. You have presented here also Exhibit 99, which is entitled "Data Furnished the Federal Power Commission at its Request as to Amounts of Direct Material and Labor
6286 Costs, Unloading, Hauling and Warehouse Handling Costs, Indirect Field Costs and Overhead Costs not Capitalized, for Major Accounts, Classified by Years during which these Costs were Incurred by the Company," and that exhibit relates, does it not, to the determination, among other things, of overhead costs shown in your Exhibit 20?

A. This Exhibit was a request by Mr. Smith, and relates to direct labor costs not capitalized, and overheads.

Q. And the overheads to which it relates are the overheads which are shown in your Exhibit 20, is that correct?

A. Yes, sir.

Q. And the method of determining those overheads is shown in your Exhibit 20-A, is that correct?

A. The method was explained in Exhibit 20.

Q. Let me put it this way. Your method is stated in Exhibit 20, and illustrated by Exhibit 20-A, is that correct?

A. Well, it is stated and illustrated in Exhibit 20, and this (referring to Exhibit 20-A) is one page of the details of Exhibit 20.

Q. That is a summation sheet that illustrates your method, isn't it, and shows the percentages that you arrive at, that Exhibit 20-A?

A. Yes, sir.

6287 Q. Your determination of overheads to be applied to construction was on the so-called dollar for dollar method, is that right?

A. As far as the general overheads are concerned; yes, sir.

Q. That is on the basis that a dollar of construction took the same amount of general overheads as a dollar of operations of the company, is that essentially correct?

A. Yes.

* * *

Mr. Milde. Exhibit 20-A?

Mr. Slaff. No; this Exhibit 99, which is the detail, and I want to get some statement here with respect to his underlying assumptions.

* * *

By Mr. Slaff:

Q. I want to know, Mr. Antonelli, whether, in your conception, the construction operations of the company are essentially a by-product operation?

A. I couldn't answer that question; I don't know.

6288 Q. Well, let's go at it another way. It is a fact, is it not, that the principal business of the company is to operate its properties?

A. Well, that is outside of my line, I don't want to pass judgment on that kind of a question.

Q. Well, isn't that necessary, Mr. Antonelli—that is to say, is not a judgment with respect to that necessary in order to arrive at a proper basis of allocating overheads between construction and operations?

A. Oh, they do operate the company, and also supervise new construction work.

Q. But isn't it a fact that the principal business of the company is to operate its properties?

A. Yes, sir; it is.

Q. And then isn't it also fair to say that the construction operations, as carried out by the Hope Company, are what might be termed "by-product" operations?

A. Oh, no; in this case I have found out that the company's supervising forces spent a great deal of time in new construction work.

Q. Then as I understand it ——

A. (Interposing.) As a matter of fact, they spent more time than in operation.

Q. Then as I understand your last answer, the construction operations, as carried out by Hope, are not what might be termed "by-product" operations?

6289 A. I am just talking from experience in going through the records, and I noticed that the company's supervising forces were spending a great deal of time in new construction work.

Q. Then you would not term the construction operations of the company "by-product" operations?

A. Well, I don't know what you would call them, whether you would call them "by-product" or not, but they spend time on new construction work, and they spend time on operation. I don't know which is the "by-product."

Q. Well, is the construction work incidental to the operations, or is it the other way around, or are they on a parity of importance to the company?

A. I don't know, I can't answer that question.

Q. Well, Mr. Antonelli, wasn't that determination necessary to be made in order to determine the proper basis for allocating general overheads?

A. The basis was that after a great deal of study——

Q. (Interposing.) No, no, no—I have asked you whether that was necessary; I haven't asked you, Mr. Antonelli, what your basis was. I have asked you whether a certain determination on your part was or was not necessary to your determination as to how these general overheads were to be allocated. Will you please respond to that?

* * *

6290 The Witness. Well, if you knew how these overheads were worked out, you wouldn't ask me that kind of a question.

By Mr. Slaff:

Q. I have asked you that question—suppose you answer it?

A. That is not the way I determined these overheads.

Q. You can't answer that question?

A. That is not the way I determined the overheads.

Q. Can you answer the question?

TRIAL EXAMINER. Was it necessary or was it not—that is all.

Mr. MILDE. Well, Mr. Slaff has a lot of words in there which may mean something, but they obviously don't mean anything to Mr. Antonelli.

Mr. SLAFF. I will reframe the question.

* * *

By Mr. SLAFF:

Q. In order to make a determination of how general overheads were to be allocated between operations and construction, didn't you have to come to a conclusion as to whether construction was a subsidiary part of the company's whole business, or whether it was on a parity with the operations of the company?

6291 A. No, I did not.

Q. And that was of no importance or consequence to you in your determination of overheads, is that correct?

A. No; not the way I determined these overheads.

Q. Now then, your assumption was, was it not, that a dollar of construction took the same general overheads that a dollar of operations took?

A. Yes, sir.

Q. And is it your answer that it takes that same dollar, regardless of whether construction is a subsidiary part of the company's whole business, or whether it is on a parity with the operations of the company?

Mr. MILDE. I want to object to that question unless Mr. Slaff states to the witness what he means by the phrases "subsidiary part" and "on a parity with the operations of the company."

Mr. SLAFF. Well, I have tried to use the term "byproduct operation." The witness didn't seen to have much of a concept of the term "byproduct operation."

Mr. MILDE. I don't understand what you mean by a subsidiary or a parity.

Mr. SLAFF. I think you understand, Mr. Milde, what I mean by "byproduct operation."

Mr. MILDE. Not as applied to a natural gas operation.

6292 TRIAL EXAMINER. If you used the expression "purely incidental," would that mean anything?

Mr. MILDE. That seems a little more like something that has some meaning. I don't know whether it would to Mr. Antonelli——

Mr. SLAFF. (Interposing.). Of course, if my friend Milde here wants to characterize the testimony of his witnesses as meaningless, far be it from me to dissuade him from that, but I have used that term simply because his witnesses have been using that term and have been decribing the construction operations of the Hope Natural Gas Company as "by product operations."

When it comes to determining whether or not one of the exhibits which the Commission has introduced was proper, Mr. Rhodes was very eloquent that our exhibits don't show full costs, because construction is just a "by product operation," construction is just incidental to the operations of the company. And I used those terms only because I thought that they were intelligible at least to the company people.

* * *

By Mr. SLAFF:

Q. Mr. Antonelli, are you familiar with what is meant by the "incremental basis" of allocating overheads?

6293 A. No, sir; no.

Q. Have you never heard that term used, Mr. Antonelli, with respect to overheads?

A. I might have, but I don't recall it.

Q. I mean you, right now, have no knowledge whatever as to what is meant in the accounting or engineering profession by the term "incremental method," with respect to prorating overheads; is that right?

A. Do you mean by that, breaking up the overheads to various parts of it—increments?

Q. No; I mean by that that an operation, which is a subsidiary operation, for example construction, possibly by an operating company, shall take only those additional overheads which are required by that work, and that the principal occupation of the company shall take the general overheads as they exist normally?

A. Yes, sir; I have.

Q. That is to say, you are familiar with that use of the term?

A. Yes, sir.

Q. You did not in this case pro rate overheads, your general overheads, on an incremental basis, did you?

A. No; I allocated them on a dollar cost basis between operations and new construction work. I did that because that was the only way possible to do it, having in mind the records

6294 available that were available.

Q. And did you make any determination with respect to how overheads had been charged in the past?

A. Well, in going over the company's records, I found that general overheads were not recorded on the company's records.

Q. That is, in the fixed capital records?

A. In the fixed capital records, yes; that is correct.

Q. That is to say, overheads had been expensed, is that correct?

A. That is right.

Q. Now, turning for a moment, Mr. Antonelli, to the problem of acquisitions by the Hope Company, you are familiar with the Clarksburg Light & Heat Company acquisition?

A. Yes, sir; I am.

Q. Was that an affiliated company?

A. Yes, sir; it was an affiliated company.

Q. And that was purchased, was it not, for a consideration which consisted of some $10.67 in cash and 13,693 shares of Hope Natural Gas Company common stock; is that correct?

A. I don't know anything about that. I wasn't interested to determine how the sale took place.

Q. Did you testify that the Hope Company had not recorded the original cost of this property on its books?

A. I don't recall, but I think I testified that on the

6295 company's books, the Clarksburg Light & Heat Company is recorded at vendor's book cost, and the difference between this cost and the purchase price was added to Hope's depreciation reserve. I believe I testified to that—but that is the fact.

Q. Now do you know, or what is your testimony with respect to whether or not the property of the Clarksburg Light & Heat Company was recorded on the books of the Hope Company at original cost?

A. The property was recorded at book cost, at vendor's book cost, of $2,233,252.76.

6296 By Mr. Slaff:

Q. You stated as follows at page 5049 of the transcript, record of July 7:

"Question—," Do you want to have that before you?

A. Yes.

Mr. Milde. [Handing.]

By Mr. Slaff:

Q. Beginning at line 4:

"Question: Did you ever find the company recorded or attempted to record any estimate of the original cost of purchased property at the time of acquisition?

"Answer: No, sir."

You so testified, did you not?

A. Yes, sir; I did.

Q. All right. Now, let's go to the—and was that supposed to apply to the Clarksburg Light & Heat Company acquisition as well as others?

A. It applies to all purchases.

Q. Now, you made a study of that purchase, did you?

A. Yes, sir; I did.

Q. All right. Now, what was the consideration given by Hope Company for the property which was acquired?

A. I went back to the vouchers and got the actual cost. That is all I was interested in.

Q. Did the vouchers show the consideration given by
6297 the actual cost paid by Hope Company?

A. This was a prior utility company and we had practically all of the records available.

Q. Well, did the vouchers show the——

A. (Interposing.) I had thousands of vouchers. I had to go by item—unit by unit and well by well—and found the cost. It wasn't necessary for me to go to purchase vouchers. Purchase vouchers don't show anything.

Q. Did you go to the purchase vouchers as you did in connection with the Flaggy Meadow acquisition you testified to on July 7?

A. I——

Q. (Interposing.) Did you or didn't you?

A. Yes; I have seen the purchasing voucher; yes.

Q. O. k. Now, what is the consideration recorded there?

A. Well, as I stated now, the cost to the vendor was—I mean the purchase price was $1,369,310.67.

Q. That is the amount that was recorded in the books in the plant account, is that right?

A. Well, I would have to get the voucher before——

Q. (Interposing.) Yes. Will you do that?

A. Well, I haven't got it here.

Q. Well, I will put it this way to you, Mr. Antonelli: Suppose you answer to the best of your present information and knowledge and make any subsequent corrections that you deem

6298 fit. Is it not true that the consideration given by Hope for that property was some $10.67 in cash and 13,693 shares of Hope common stock?

A. My recollection is that that figure is correct; yes.

Q. All right. Now, is it also not a fact that the value placed on that stock by the Hope Company was, at the time of issue, $1,464,114.75?

A. Well, I am sorry. I don't know. I don't remember.

Q. You can verify that, can you not?

A. Well, yes.

Q. Do you have here any data from which you can verify that?

A. No. Not in this place.

Q. Do your assistants here have any such information?

A. No, sir.

Q. That consideration is shown on the purchase voucher?

A. I think it is shown; yes.

Q. Let me refresh your recollection, Mr. Antonelli, while I think of it. I show you a letter dated May 17, 1940, on the letterhead of the Hope Natural Gas Company, addressed to Mr. J. A. Hennig, Examiner in charge, Federal Power Commission, Clarksburg, West Virginia, and signed by George N. Reed, and ask you whether that refreshes your recollection as to the facts?

* * *

6299 Q. So, then, it is a fact that the consideration given by Hope for that property in addition to the $10 of cash, was common stock which Hope valued at $1,464,000. That is correct, is it not?

A. Yes; according to this letter; yes, sir.

Q. And that amount of consideration paid by Hope for this property was $94,814.75 above the net book cost of the Clarksburg Company property, isn't that correct?

A. That is, according to this letter, that is correct. It states so.

6300 Q. And that amount, that difference, to wit: that amount of 94-odd thousand dollars, was recorded by Hope in a "property appreciation account," was it not?

A. That is what the letter states and I suppose that is correct; yes.

Q. And that respresented, did it not, appreciation over the original cost of the Clarksburg Company's property as the Hope Company then conceived it to be?

A. No, sir.

Q. Isn't that correct?

A. No, sir. The book cost of the Clarksburg Light & He Company did not reflect the original cost of the Clarksburg Lig & Heat property.

Q. The book cost of the Clarksburg property did not represe the original cost as you now conceive that original cost to b That is correct, is it not?

A. Now—and the fact is that it did not represent the origin cost because all of the costs were not recorded. The well co struction costs weren't recorded. It couldn't be.

Q. You have testified, Mr. Antonelli, that the Hope Compan never recorded or attempted to record any estimate of th original cost of purchased properties at the time of acquisitio isn't that so?

A. I still say that that is so; yes.

Q. Now, you do not then conceive that the Hope Com-
6301 pany, when it recorded 1,300,000-odd dollars in its plan accounts in the Clarksburg acquisition, was attempting t record the original cost of the company's property, is tha correct?

A. I say they did not attempt to record the original cost of th property; no, sir.

Q. The $94,000 entry that was made in an account called b the Hope Company, "Property appreciation account," was no in your judgment designed to represent the appreciation in th property above original cost which had been paid for by th Hope Company, is that correct?

A. Yes, sir.

Q. Do you know what the "Property appreciation account" wa supposed to represent?

A. No, sir. I wasn't interested and I didn't have any occasio to find out; no, sir.

Q. Mr. Antonelli, you weren't interested in finding out what that account paid before you testified flatly that the compan never attempted to record any estimate of original cost of ac quired properties, is that correct?

A. I still say that it didn't record any estimates——

Q. (Interposing.) No, no, no. Will you please answer the question.

* * *

6302 A. Yes, sir.

By Mr. SLAFF:

Q. That is correct?

A. Yes, sir.

Q. In other words you came to a determination of what the company had done or attempted to do on its books with respect to a particular acquisition, without investigating all the entries that had been made by the company in connection with that acquisition, is that correct?

A. I investigated——

Q. [Interposing.] Now, is that correct or not?

Mr. SLAFF. I submit that can be answered categorically.

The WITNESS. I will answer it with reservation; yes.

By Mr. SLAFF:

Q. All right, so now——

Mr. MILDE [Interposing]. Wait a minute. Let him state his reservation.

Mr. SLAFF. That is just what I am going to get to.

By Mr. SLAFF:

Q. With reservations you can say that you can tell us whether the company attempts to record an acquisition at original cost, without investigating all the records made by the company in its books at the time of acquisition. That is correct?

6303 Will you please tell us whether that is correct and then if you want to state the reservation, go ahead?

A. Yes; with reservation, I will say, yes.

Q. Go ahead and tell us what the reservations are?

A. Well, I determined the original cost. I went to every voucher that shows individual items, which were part of the Clarksburg Light & Heat Company, or any other prior utility, and made sure that the actual original cost was really the actual original cost, and not what was on the books, and I am a hundred percent certain that the company never made any estimates in any case. I do not know that the company had made no estimates.

Mr. MILDE. Of original cost?

The WITNESS. Of original cost; yes.

By Mr. SLAFF:

Q. And that is your sole reservation?

A. Certainly. I examined every voucher. I examined every item.

Q. That is, you examined everything except all of the accounts of the company?

A. I was interested in individual items. I wasn't interested in the purchased properties as they existed in 1929 or what not. I was interested in the items that existed on December 31, 1938.

Q. That is right.

6304 A. Now, that was a utility. What I had to do is go to the vouchers and find the actual cost of these properties.

Q. Yes.

A. While I was doing that I was comparing with the books and I am darn sure that the company never made any estimates on original cost.

Q. You can tell us that what the company recorded or attempted to record in its books at the time of acquisition, with respect to original cost, without making a complete examination of the company's books; isn't that so?

Mr. Milde. I object to that question.

Mr. Slaff. Well, if it is not so, he will tell me so.

Mr. Milde. It is a repetition that has been asked at least five times. Mr. Antonelli has stated that he has examined all the books and records and he asked him——

Mr. Slaff [Interposing]. He stated directly contrary to that, Mr. Milde.

By Mr. Slaff:

Q. Did you examine the property acquisition account?

A. I examined every voucher, every record, every book that was necessary to examine.

Q. Did you examine the property appreciation account record——

A. [Interposing]. Examined——

Q. [Interposing]. Just a minute. Relax.

6305 (Continuing.) Record, to determine what that purported to be. Didn't you testify just a few minutes ago you did not?

A. I don't think I did, because I got all the costs that it was necessary to get in order to determine the original cost. I can show a voucher for everyone of those costs. That is all that was necessary for me to do. I didn't have to do unnecessary things.

Q. Now, let's get back to the property appreciation account and the record thereof made by the company.

* * *

Q. Now, did you or did you not make an examination of the records in the property appreciation account, to determine what that was supposed to represent at the time it was recorded in the company's books?

A. Personally, I did not.

6306 Q. Now, did any of ——

A. (Interposing.) Excuse me, I haven't finished.

Q. I submit he has finished. That is all I asked him, whether he did or didn't.

A. I was just going to say, somebody else might have done it.

Q. That is the next question I was going to ask you, Mr. Antonelli. You will get it.

A. Excuse me.

Q. Did any of your assistants do that and report to you in respect to that?

A. I don't recall, but I assume that somebody did look at this appreciation item, but I can't recall offhand. There were so many things to remember.

Q. What does "property appreciation" mean, Mr. Antonelli?

A. Well, it is probably an increasing of value or what not.

Q. Well, it means increasing value rather than what not, doesn't it?

A. Well, increasing cost, let's say.

Q. Increasing cost over what?

A. Over some other cost, I don't know.

Trial Examiner. Over what?

The Witness. Over another cost.

Trial Examiner. The increase of one cost over another

6307 cost?

The Witness. Yes.

By Mr. Slaff:

Q. And the cost that was recorded on the Hope Company books was the book cost on the books of the Clarksburg Company, isn't that so?

A. Yes, sir.

Q. And the depreciation reserve was also picked up, was it not?

A. Yes, sir.

Q. And you are telling us now that you know, now, that, back in '29, when the company recorded those figures on its books, it was not attempting to record on its books the original cost of those properties, is that correct?

A. Oh, yes. I am very certain that they weren't attempting to record the original cost. They were recording the book cost of Clarksburg Light & Heat Company. A hundred percent certain.

Q. And is one of the factors in your determination, the fact that no consideration was given to well construction costs at the time of the acquisition, because it had been the practice of both companies to expense such costs?

A. Yes; it is, because, without having the full costs of these wells, you couldn't get your original cost.

Q. In other words, then, what you are saying is that
6308 the Hope Company, at that time, was not attempting to
record on its books what you presently conceive to be
original cost, as you have testified to that, is that right?

A. Yes; and what anybody will think original cost is, the full original cost.

Q. Well, let me see if I get you straight, so the record will be clear Mr. Antonelli: The Hope Company did not record on its books, with respect to Clarksburg acquisition, what you presently consider the original cost—right?

A. Yes, sir; that is right.

Q. It did not attempt to record on its books what you presently consider the original cost—that is correct?

A. Yes, sir; that is correct.

Q. Illustrative of that is the fact that it did not record on its books any well construction costs which had been expensed previously by the Clarksburg Company, is that correct?

A. Yes, sir.

Q. Now, do you know whether in 1929 the Hope Company considered original cost to be what you now consider it to be?

A. I don't know what the company's mind was in 1929, I am sure.

Q. That is right. So that you do not know, Mr. Antonelli,
whether in 1929 the company attempted to record on its
6309 books what it then considered to be the original cost of ac-
quired properties, isn't that correct?

A. No, sir; because it was very plain it wasn't original cost, didn't include all of the costs. How could it include original cost when you had only part of the costs?

Q. Mr. Antonelli, you know that conceptions of what is original cost differ.

A. There is only one original cost, the full cost.

Q. There is only one original cost and Antonelli is its prophet. Mr. Antonelli, is it not a fact, as demonstrated in this case, that there is difference of opinion as to what represents actual original cost?

Mr. MILDE. Between reasonable men?

Mr. SLAFF. I will add, between reasonable men and men equally competent in the field of engineering and accounting with Mr. Antonelli.

The WITNESS. Well, I can't conceive the idea that if a person paid $2,000 for a well and capitalized $1,000, that $1,000 is the cost of the well. It is $2,000. It is plain thinking.

By Mr. SLAFF:

Q. Now, Mr. Antonelli, we are wasting a lot of time. Now, isn't it a fact, Mr. Antonelli, that there is difference of opinion between equally competent people as to what is original cost?

6310 A. Yes; there is, from a bookkeeping point of view and accounting point of view, yes; but not as to actual cost. It couldn't be anything else but just what you paid for it.

Q. All right. Now, is it not a fact that in 1929, what the Hope Company then conceived or considered to be original cost of property was different from what you today consider to be original cost of that property?

A. My idea is that I don't think the company ever considered that it was original cost. They just set up the book cost. I don't think they talked anything about original cost.

* * *

A. I don't know what the company thought about it.

By Mr. SLAFF:

Q. Then you cannot tell us whether the Hope Company in 1929, or at any date in the past, with respect to acquisition, attempted to record in its books what it then considered to be the original cost of the properties which it was acquiring, is that so?

A. All the investigations that I made shows that the company never attempted to show original cost on their books of the property that they purchased. They showed the purchase price.

6311 Q. Mr. Antonelli, you have testified just now that you don't know what the company considered to be original cost in the past, is that right?

A. The facts show —

Q. (interposing). Is that or is that not right, have you so testified?

A. Yes, sir; with qualifications.

* * *

Q. Now, then, with respect to acquisitions made in the past, is it not a fact, then, that you cannot tell us whether the company did or did not attempt to record on its books the original cost of those properties acquired as it then considered original cost?

A. My study convinced me that they did not attempt to set up the original cost, and I can prove it to you.

Q. You are in luck, Mr. Antonelli. Your study convinced you that the company did not attempt to set up original cost as you today conceive original cost to be, and to mean, isn't that right?

A. No, sir. I can prove to you that what they set on the books was the purchase price and not the original cost. I am

6312 talking about facts now. I can prove it to you with figures.

Q. We know that purchase price went on the books, Mr. Antonelli, and obviously that is what we are coming to, if you can testify to it, as to whether or not that purchase price did or did not represent original cost. Now, then——

A. (interposing). It was very plain it didn't represent original cost.

Q. It was very plain to you, Mr. Antonelli, that it did not represent original cost, as you now conceive and represent original cost to be, isn't that what you mean to say?

A. It is very plain that what they set on the books is not the actual price that the predecessor paid for it.

Q. Well, let's start again and just see if we can develop this in reasonable sequence, Mr. Antonelli: You have testified, have you not, that you do not know what the Hope Company considered original cost to be?

A. Yes, sir.

Q. At the time of its various acquisitions?

A. Yes, sir.

Q. All right. If you do not know what the Hope Company considered original cost to be at the time of acquisition, now you represent, do you, that you can tell us whether the Hope Company recorded or attempted to record original cost of acquired properties as it then conceived the meaning of the term?

* * *

6315 The Witness. No; I can't.

By Mr. SLAFF:

Q. All right. So then all your testimony with respect to whether or not the company recorded on its books or attempted to record on its books the original cost of acquired properties, refers only to original cost of acquired properties as you now conceive original cost, is that right?

A. It refers to the actual original cost. I mean, the amount of money the predecessor paid.

6316 Q. Mr. Antonelli, someone other than you and I will decide what is the actual original cost?

A. Well, I am saying that it refers to what actually somebody paid for the properties and not what was recorded on the books, or what was the purchase price.

Mr. SLAFF. Well, I wonder if the reporter would re-read my question, and I wonder if you would tell me, Mr. Antonelli, if that isn't, in the light of what you have just said, if that isn't a fair statement, as I have put it?

(Whereupon the pending question, as above recorded, was read by the reporter.)

A. Yes; that is right.

By Mr. SLAFF:

Q. All right. Let's for a minute turn to the Flaggy Meadow acquisition. Will you turn to the Fayette County Gas Company acquisition?

A. All right, sir. You mean in Exhibit 98?

Q. Well, just direct your attention to that, and then we will—you may have some papers in connection with that. In your determination of original cost of that property, what did you determine as the value per acre, and cost per acre, of the gas acreage of the company?

A. I used the purchase price, which I think it was $14.50 per acre. I am not certain, but I think that was

6317 $14.50.

Q. And that is the amount which is recorded on the company's books in connection with the acquisition of that property?

A. Of what is left of that property.

Q. Yes, sir. Did you record that amount—did you use that amount as representing the original cost of that gas acreage?

A. Certainly; yes.

Q. I see. As to that, that amount was entered on the company's books as original cost, was it not? The gas acreage in that acquisition.

A. In the case of leases, we set up the original cost—the original cost was the cost of—the purchase cost, put it that way, the purchase cost for leases purchased from other utilities.

6318 Q. Well, so that in that respect, at least, the company, as far as you are concerned, did record on its books the original cost of property acquired from prior utilities?

A. Yes. In this case exception was made, I think in accordance with rulings by the West Virginia Commission. I am not certain, but I had instructions by the company to do so.

Q. And you did the same thing, did you not, with respect to the acquisition from the Flaggy Meadow Gas Company? That is to say, you took as original cost the cost of gas leases, as recorded at the time of acquistion. Is that right?

A. We did this with respect to all of the purchased leases, and I said why we did it. We did it because we had special instructions in the case of leases.

Q. Well, of course you had no qualms about disregarding general instructions in the system of accounts, did you? I am referring specifically to instructions 2-(b).

A. No.

Q. So then you represented to this Commission that the original cost of the leases, if I may sum up—leases of acquired utilities—was the amount that had been recorded at the time of acquisition?

A. Yes, sir.

Q. All right.

A. And I said why.

6319 K. That is right. That represents a recordation by the company, does it not, on its books, of the original cost of that property? That is correct, is it not?

A. Yes, sir.

Q. So that, to that extent, at least, your previous testimony that the company did not record original cost of acquired properties on its books is in error. That is correct, is it not?

A. That is an exception and I say I gave the reason why we did that. We had special instructions.

6320 Q. And in the Fayette County Gas Company purchase, that represents about a third of the purchase price, does it not?

A. You mean now or at the time of the purchase?

Q. At the time of the purchase.

A. I think it was about $200,000.

Q. Out of six?

A. Yes.

Q. Yes; that is right.

A. But we don't have $200,000 now. We don't even have $200,000 left in the entire Fayette County Company. We have only fifty leases.

Q. I understand that. Now, with respect to the Flaggy Meadow acquisition: When was that property constructed?

A. Constructed or acquired?

Q. Constructed?

A. Prior to 1902.

Q. Over what period prior to 1902?

A. Oh, I would say offhand—I don't know—I see a line here, 1895.

Q. When was the bulk of the property constructed, Mr. Antonelli?

A. Well, I can't say offhand. Prior to 1900. I can't guess; I can't say.

6321 Q. That property was acquired in 1902, was it not Mr. Antonelli?

A. That is right.

Q. And isn't it a fact that the bulk of that property had been built in about the five-year period preceding 1902?

A. Something like that.

Q. Yes.

A. But I am not certain.

Q. Certainly.

A. My records show that some wells were drilled in 1895, 1900, 1901.

Q. Surely. Well, I am just talking about the bulk of the property. And the property acquired was recorded in the plant account of the Hope Company at average cost, was it not, Mr. Antonelli?

A. Was recorded at the purchase price.

Q. Was the purchase price spread among the different accounts?

A. Yes, sir.

Q. And was that spread determined by a determination of average cost of the property in each of the accounts, Mr. Antonelli?

A. Yes; they used the current market prices.

6322 Q. We will get to what they used, but it was recorded, was it not ——

A. (Interposing.) It was recorded——

Q. (Interposing and continuing.) As stated in the voucher, at average cost?

A. Yes; average cost determined by Hope; yes.

Q. That is right?

A. Yes.

Q. Now, you say, do you, that that average cost is average cost for the year 1902?

A. That is the average cost for the previous two or three years. I am not certain whether it was two, or three, years. The average current market prices for 1902, 1901, 1900—the previous two or three years.

Q. It couldn't have been the previous three or four years, or anything like that?

A. I can get you the exact figures if you wish. I don't know if it was two years or three years, but it was the previous two or three years.

Q. You say you spot-checked those costs?

A. Certainly I did.

Q. Now, did you have some of your people make that check for you or did you yourself do it or review what was done?

A. I had some people make it for me.

6323 Q. You made no independent study of your own to determine whether average cost meant average cost over the period during which the bulk of the property had been constructed or something else?

A. I instruct~~ed to check exactly~~ what the average costs shown on the voucher were, and how they were obtained, and that man did that work and he understood perfectly what I asked him to do.

Q. When you speak of the voucher in that last answer, or the vouchers, are you referring to the Hope Company vouchers or the predecessor company's vouchers?

A. Let me see. I was referring to—I think it is H-45; I will have to check it; or H-48.

Mr. Milde. Was it the Hope Company voucher or the voucher of a predecessor company?

The Witness. It was a Hope Company voucher.

By Mr. Slaff:

Q. Did you have any vouchers of the Flaggy Meadow Company, which you could consult?

A. I can't recall offhand; no. I had a receiving voucher. No, I don't know; I don't——

Q. (Interposing.) Well, when you testified earlier in the afternoon that you had a voucher for every single cost shown in your original cost, you weren't then referring to acquired properties?

6324 A. I have vouchers for certain companies like Mountain State and Clarksburg Light & Heat, to the predecessors.

Q. But not for all of them?

A. Not for all of them.

Q. To that extent, you do not have vouchers showing the cost of the properties going into the total of the original cost, have you?

A. I have some vouchers but not all of the vouchers. I don't know how much, but I had quite many vouchers of the predecessor companies.

Q. All right. Now, with respect to the Flaggy Meadow acquisition, you are telling us that average cost, at which the over-all cost was spread between the different plant accounts, did not represent average cost over the period during which the bulk of the company's property had been installed; is that correct?

A. That is correct.

Q. And that is based upon, as you have testified, the determination that some of your assistants made in this case?

A. Yes, sir.

Q. Now, there, again, in that case, you have recorded, have you not, \$6.00—you have recorded acreage at some \$6.01 per acre as representing the original cost of that acreage?

6325 A. I don't have the figure, but I think you are right. I am not certain, but it runs through my mind that it ran about \$6.00.

Q. And to that extent you are representing that the Hope Company did record, at the time of the acquisition of that property, the original cost of the gas acreage acquired; is that right?

A. Yes, sir; and I again would like to explain that that was done—that was an exceptional case and it was done under the instructions of the West Virginia Commission, that, in the case of purchased leases, that we should record the purchase price.

Q. By the way, Mr. Antonelli, when you speak of this instruction of the West Virginia Commission, in this qualification you are making, are you speaking of a recent instruction?

A. I don't know how recent the instructions are, but—let me see—well, I suppose I got the instructions a year ago.

Q. Well, that is, instructions which were given to you within the past year or so?

A. Yes.

Q. By the Commission, as to how that matter should be handled; is that right?

A. Well, they were given to me by the company and I
6326 understand that they got it from the Commission.

Q. Well, that, at least, is your understanding of what was represented to you by the Company?

A. Yes.

Q. You made no independent effort to get an instruction or interpretation from the West Virginia Commission in that respect?

A. No, sir. I was instructed that, in the case of the leases, I should use the purchase price, and I think they got the instructions from the West Virginia Commission. However, I am not quite certain.

Q. You testified, did you not, that there was no possibility of duplication of costs, as shown in your Exhibit 60 and 20, and amounts recorded on the Company books; is that correct?

A. What kind of a duplication do you refer to?

Q. Duplication of cost.

A. I know. In properties?

Q. Yes.

A. What?

Q. Yes; in the property account.

A. One item could appear in two accounts; is that what you mean?

Q. Yes, that is right; or in the same account.

A. Oh. I am certain there is no duplication.

6327 Q. Well, suppose a property in the 1920 reclassification of accounts—suppose a property was missed, would that mean that the cost as recorded on the Company's books at that time would also have been missed?

A. I didn't pay any attention to the 1920 reclassification. I just ignored it.

Q. Mr. Antonelli, did you testify, when asked how property exists which does not show on the Company books, didn't you testify that it might be that, during the reclassification of accounts, certain properties were missed and, when asked what reclassifications you meant, you referred to the 1920 and 1932 reclassifications?

A. Yes; certainly.

Q. All right.

A. Well, if they were missed and then we picked them up in the field and found the costs on the books, we restored them. If we didn't find the cost on the books and records, by the way, then I included them under the column, "Direct material and labor not capitalized."

Q. Well those former reclassifications were just that, weren't they—reclassifications of cost on the books?

A. Well, let me tell you what they did in 1920.

Q. All right.

A. They had certain dollars set up on the books. They
6328 didn't change the dollars.

Q. That is right.

A. They went out in the field and made a new inventory and set up this inventory and reclassified these dollars they had as of 1920.

Q. That is right, so——

A. (Interposing.) Under one voucher.

Q. Pardon me. Go ahead.

A. M-699. That is an inventory voucher. It doesn't mean anything. What I did, I ignored that voucher. I went back and got the actual cost by first identifying the property——

Q. (Interposing.) Let's not get to what you did. We are still at 1920. We will get down to what you did. I am just asking——

* * *

6329 By Mr. Slafe:

Q. Now, confining ourselves solely to the 1920 reclassification, the dollars on the Company books were spread over an inventory that was then taken; isn't that right, Mr. Antonelli?

A. Yes, sir.

Q. And so all the dollars that had been on the books before the reclassification still remained on the Company's books after the reclassification—that is correct, is it not?

A. All the dollars; yes.

Q. ~~Surely. And when you say~~ certain properties were missed, or might have been missed, what you meant was that, in making the inventory, certain properties might have been omitted from that inventory; isn't that correct?

A. Well, not intentionally.

Q. Of course we are not going into the question of intentio at this time.

A. They were missed, that is all.

6330 Q. And omitted from the inventory?

A. All right, omitted from the recording it on the b oks.

Q. The dollars were recorded on the Company's books, wer they not?

A. Yes.

Q. All the dollars—right?

A. That is right.

Q. All the property, however, the items of property, might no have been recorded on the Company books; is that correct?

A. That is correct.

Q. Now, when you went out in your present original cos determination and found a property that had been missed ir 1920, you determined the original cost of that property, did you not?

A. Yes.

Q. Now, in those cases, where you could find that some cos of that property had been recorded to another item of property you eliminated that; is that correct?

A. I don't get that last question.

Q. All right. With respect to property that you found in your present inventory, which had been missed in the earlier inventory, you determined—you made an estimate of the original cost of such property—right?

6331 A. No; I first made—I tried to find the voucher and in many cases I did find the voucher.

Q. Yes.

A. Not the 1920 voucher, but the actual voucher.

Q. That is right.

A. And I put it in.

Q. That is right, and you either determined the cost from voucher or made an estimate of the cost of such property; isn't that right?

A. I put it the other way: For instance, as I tried to say—I was stopped—I didn't pay any attention to the 1920 inventory voucher. I went out in the field.

Q. That is what we are afraid of, Mr. Antonelli.

A. And got the inventory and went back to the original vouchers and got the cost. I just kept that 1920 inventory voucher. It didn't mean anything. So I went back to the actual

cost. If I didn't find the voucher I estimated or put it under the column, "Material and labor," and "Direct material and labor not capitalized," so there couldn't be any duplication and there couldn't be an improper distribution of costs.

Q. Now, do you mean to tell us that you paid no attention whatever to—what is that voucher number? M-69? The adjustment?

6332 A. M-699.

Q. M-699; the 1920 reclassification voucher?

A. That is right.

Q. You paid no attention to that in your original cost determination?

A. No sir. Went right past it.

Q. All right. Now then, going back—Well, included in your total of inventory transferred and correction adjustment, column 6, pages 31 and 32 of Exhibit 20, included in the total of $1,804,000, red figure in that total, isn't there a total of approximately $158,000 which are adjustments of vouchers M-699 and A-155?

A. Where are you getting those figures from?

Q. I am just asking you a question. The figures as they come now, for your convenience, are from Mr. Pace's Exhibit 67-A.

A. I don't know anything about Pace's exhibit.

Q. Don't you know anything about Pace's exhibit?

A. I wouldn't want to explain Pace's exhibit now.

* * *

Q. I am asking, independently of Mr. Pace, whether
6333 you know whether or not there is contained in your Column 6 of Inventory and other adjustments, of your Schedule 1-A adjustments, with respect to voucher M-699.

A. Certainly there is.

Q. Then you did pay some attention to that voucher, Mr. Antonelli?

A. Well, in order to eliminate it, you do have to pay some attention. You make an adjustment to bring—to tie it up with the books.

Q. You told us just a minute ago, Mr. Antonelli—and the reason I inquired specifically here—you told us just a minute ago that you hadn't paid any attention at all to voucher M-699. I was trying to find out what the fact was.

A. I didn't pay any attention, as far as determining the original cost. I had to adjust it out and find the actual cost, and it is only natural. I can't understand what you are driving at.

Mr. MILDE. Well, you paid attention to it, to the extent of disregarding it?

The WITNESS. That is all.

Mr. SLAFF. That, I might observe, of course, is not a finesse with words—no.

Mr. MILDE. Well, it is what you finally brought out by your cross-examination, as I see it.

* * *

6334 By Mr. SLAFF:

Q. Do you consider it proper to increase the cost of the property purchased from an affiliate above the purchase cost; is that right?

A. Well, if I was determining the original cost and the purchase costs from the affiliate wasn't the original cost, naturally I would consider it improper that that is the cost.

Q. As I interpret your last answer, you consider it proper for an affiliate to make a profit on an acquisition; is that right?

A. Profit?

Q. Yes.

A. There is no profit involved here at all. How could there be profit? We are just getting to the original cost.

Q. Where do you propose to show the difference between purchase cost and original cost of those properties acquired from affiliates in the records which you are setting up on the Company's books?

A. That hasn't been decided yet.

6335 Q. Where do you propose to show it?

A. It doesn't make any difference. According to the code of accounts I will put it in 100.5. That is my personal idea.

Q. How do you propose to dispose of it after it is recorded in Account 100.5?

A. No one knows about that.

* * *

Q. What is that?

A. I don't know.

Q. You just don't know; is that right?

A. No. Nobody else does.

* * *

The WITNESS. I have no opinion.

6336 Q. Then you just don't know?

A. No.

Q. Of course you are not, Mr. Antonelli, disputing the fact that, with respect to these prior acquisitions, Hope recorded in its accounts the cost to Hope?

A. In some of the cases, like Clarksburg Light & Heat and Mountain State, they recorded the cost to the vendor, and then showed the difference in the depreciation reserve. In some properties they recorded the purchase price.

Q. The net effect of the Clarksburg and the other acquisition was to show the cost to Hope?

A. Yes.

* * *

6339 Redirect examination by Mr. MILDE:

Q. Mr. Antonelli, you were interrogated as to a 25 per cent additional allowance over some Ford, Bacon and Davis unit costs that you used in making certain estimates on structural costs, do you recall that?

A. Yes, sir; I do.

Q. Well, what was the total amount of structural costs that you estimated in your $70,000,000 original cost estimate for items where you used these adjusted unit cost figures?

A. The total amount involved, that total amount of the amount that the Federal Power Commission Examiner excluded from their Exhibit 57, was approximately $100,000.

Q. And those were the only items in this $70,000,000 where you used these unit costs that you were interrogated about?

A. No; those are the dollars that the Federal Power Commission Examiners did not allow us.

Q. They did not allow $110,000 of estimates?

A. That is right.

Q. And those particular unit costs were not used in connection with any other estimates than these?

A. Well, they were used with an additional amount,
6340 about a hundred thousand dollars, which was allowed by the Federal Power Commission.

* * *

Q. Mr. Antonelli, referring to your Exhibit No. 60, let me ask you if the figures that you show for the various accounts are not an explanation or an itemization of the omitted property and costs of the figures appearing in column "H" of Schedule No. 2, of the Federal Power Commission Examiners Exhibit No. 75?

A. Yes, they are.

Q. In other words, taking the first item of $150.45 as shown in column "H" there, as amount disallowed by the Examiners, that is the $150.45 which appears on page 2 of your Exhibit 60?

A. That is correct.

Q. And so on, if we ran through all of these accounts, they would either be exactly or substantially the figures shown in column "H," would they not?

A. The difference would be the property used to transport coke oven gas which are not included in our Exhibit No. 60.

* * *

TRIAL EXAMINER. Ruling was reserved on Exhibits 59,
6341 69, 98, and 99. Was there any objection to those exhibits?

Mr. SLAFF. Well, I have what I might say is perhaps not an objection but something which I think the Examiner should take into consideration in ruling on the exhibit. If this Exhibit 60 is admitted into evidence, I think it should be admitted by the Examiner with the notation at the time of admission that the various headings and statements contained therein are very definitely misleading as they appear in the exhibit.

TRIAL EXAMINER. And as admitted by the witness.

Mr. SLAFF. That is correct. I think the nature of those—of the misleading character of those representations in the exhibit—has, I think, been brought out in the cross-examination of this witness. If the Examiner is to admit this exhibit in evidence. I think it should be done with a statement by the Examiner at the time of such admission so that in the future this exhibit won't stand just by itself in the record, and I do make that observation with respect to the exhibit.

Mr. MILDE. If the Examiner were to state with respect to each exhibit that he thinks this title or that title were misleading, we would never have a record here.

Mr. SLAFF. The reason I say that is because I really think that it is of sufficient consequence in this case so that,
6342 if an objection were pressed on that ground, it might be proper on the part of the Examiner to sustain such an objection.

Nevertheless, what would happen then, I presume, would be that the company would have to re-do the exhibit if it wanted to get it into evidence, and that is a considerable job—what the job might be worth is something else again—but it is a considerable physical job and I don't want to press the objection on that ground for that very reason; but I do think it a reasonable re-

quest to make that some notation be made at the time of admission into evidence of this document, if it is admitted, with respect to the representations made on the face of the exhibit itself in certain parts, and their misleading character in that respect.

TRIAL EXAMINER. Well, that probably would necessitate some little study of the exhibit and the record in order to determine just exactly what misrepresentations do appear in the exhibit, unless counsel has them in mind specifically right now.

Mr. SLAFF. Frankly, what I want to guard against is the fact that this exhibit may sometime be considered by itself without specific reference to that portion of the record where we took up, with Mr. Antonelli, what I, at least, conceive to be very definitely misleading portions of the exhibit, on its face.

Mr. MILDE. Well, may I call the attention of the Ex-
6343 aminer to this, that what Mr. Slaff is afraid of is the very
reason—unwarrantedly—is the very reason that I asked Mr. Antonelli on redirect if it wasn't a fact that this Exhibit 60 is an explanation or a list of the omitted costs or omitted property costs of the figures appearing in column "H" of the Commission's Exhibit 65.

Now, you look at that exhibit and there can't possibly be any doubt, for example, that on the land accounts, the ——

Mr. SLAFF. Let me explain what I have in mind.

Mr. MILDE. Let me finish—that on the land accounts the Commission allowed a certain amount of money, as shown by their exhibit, and they have disallowed $150.45, which are the abstracting and recording costs listed in here. These two exhibits, one by the Commission's staff, and one by Mr. Antonelli, tie in together.

One is complementary or supplementary to the other, and there can't be any doubt that what is listed in Exhibit 60 is either the entire omitted cost of a particular structure, or certain portions of the cost.

Mr. SLAFF. Well, now, just take a look. I have before me that exhibit, and it is open to page 4, which is the first page of Account No. 33-2, and it certainly represents that there was excluded in the Federal Power Commission original cost exhibit, obtaining,
recording, consideration, and abstracting, costs for every
6344 single one of the leases shown there on the exhibit. That
is certainly what that page represents and Mr. Antonelli certainly, under cross examination, stated, that that is not what it was intended to represent by any manner of means.

Mr. Milde. And I so stated at the time.

Mr. Slaff. Sure, that is right. Certainly, to anyone who reads that portion of the record, that will be apparent, or one will know about it.

Trial Examiner. I don't think counsel for the company could complain of a ruling in accordance with the witness' own testimony, with respect to the exhibit.

Mr. Milde. Oh, no. No, I just didn't want the Examiner to think that we would put anything in here that was intentionally misleading, and I made a statement at the time that we put these costs in here as a general heading, and dittoed them, and if we were doing it again we wouldn't do it that way.

Mr. Slaff. Sure.

Mr. Milde. Because, looking at it now, somebody might get a wrong impression.

Mr. Slaff. I am not going into the motivation now, and the motivation isn't what moves me in making the statement I do, and the suggestion I do. It is simply so that the exhibit, on its face, will be clear, and if somebody goes to the place where
6345 it is received into evidence, if it is, and reads that portion, he will know what the fact is in that respect.

Trial Examiner. Exhibits 59, 98, and 99 are admitted into evidence.

(The documents referred to were received in evidence as Exhibits 59, 98, and 99.)

Trial Examiner. Ruling will be reserved on Exhibit 60.

* * *

6686 **TESTIMONY OF F. P. C. WITNESS GOUGH ON HOPE WITNESS' MISINTERPRETATION OF GOUGH'S REBUTTAL OF "TRENDED ORIGINAL COST"**

Transcript Pages 6686–6734

* * *

Mr. SPRINGER. Mr. Examiner, we are presented with an unusual situation, in that the company didn't choose to cross-examine Mr. Gough relative to Exhibit 74 which was his report on Mr. Antonelli's original cost trended, nor to call Mr. Antonelli to the stand to rebut the criticisms or trending of original cost, which Mr. Gough's exhibit is, but the company had Mr. Rhodes testify in that connection.

In his testimony, Mr. Rhodes has said a number of things, in connection both with Mr. Antonelli's Exhibit No. 20 and Mr. Gough's Exhibit No. 74, which are untrue, and I believe that the progress of the case would be expedited if I were to have Mr. Gough take the stand to comment upon several of the answers which Mr. Rhodes gave during the course of his testimony on Wednesday, July 16, 1941, and Mr. Gough will confine himself to Mr. Rhodes' statements, and nothing new is presented here.

6687 TRIAL EXAMINER. Mr. Gough should confine himself to a direct answer to Mr. Rhodes' statements.

Mr. SPRINGER. Yes.

TRIAL EXAMINER. And not bring up any new matter.

Mr. SPRINGER. That is the purpose of presenting Mr. Gough at this time in surrebuttal of Mr. Rhodes rebuttal.

Mr. MILDE. Of course, the proper way to develop any errors in Mr. Rhodes' statement is by cross-examination of Mr. Rhodes.

TRIAL EXAMINER. That is quite true.

Mr. SPRINGER. Of course, I made a statement at the time that I found Mr. Rhodes to be an evasive witness and I am unable to get him to acknowledge misrepresentations that he has made.

Now, my only resort is to bring the man who made the study, Exhibit 74, and let him point out where Mr. Rhodes misquoted

him. We are certainly entitled to that in the course of procedural due process and a fair trial.

Mr. Milde. I think we are also entitled not to have the counsel for the Commission make an inaccurate statement as to the testimony of one of our witnesses. Just because he doesn't answer what Mr. Springer thinks he ought to answer doesn't make him an evasive witness.

Mr. Springer. That is just my opinion. It doesn't necessarily have to influence the Examiner or you or anybody
6688 else.

Trial Examiner. Well, of course, in so far as Mr. Rhodes may have misquoted the witness, that might very easily have been developed on cross-examination, but when it comes to an erroneous interpretation of this witness' statement or testimony, I think it is very doubtful that that could be properly developed on cross-examination.

Mr. Springer. That is my point, Mr. Examiner.

Trial Examiner. Well, go ahead.

Victor G. Gough, called as a witness, having been previously sworn, resumed the stand, was further examined and testified as follows:

Direct Examination By Mr. Springer:

Q. Mr. Gough, were you present and did you hear the testimony of Mr. Rhodes on Wednesday, relative to Exhibit 74 which is your report on original cost trended, which was originally Mr. Antonelli's Exhibit 20?

A. I was and I did.

Q. Are you prepared to answer certain questions in connection with the testimony that Mr. Rhodes gave?

A. I am.

Q. I refer you to page 6229 of the transcript in which
6689 Mr. Rhodes stated that you developed a trending method to trend the company's original cost. Did you do any such thing?

A. I did not.

Q. What did you do——

Mr. Milde [interposing]. Just a moment. If we are going to have any reference to Mr. Rhodes' testimony, will you state it accurately in the record by reading it?

Mr. Springer. Do you have page 6229 before you, Mr. Milde? Do you have it before you?

Mr. Milde. Yes; I have a copy of it.

Mr. Springer. Don't you see that Mr. Rhodes stated that he thought Mr. Gough developed a trending method to trend the company's original cost. That is obvious, isn't it?

Mr. Milde. This is the direct statement. It begins at page 6228 of the record.

Question to Mr. Rhodes: "Mr. Rhodes, are you familiar with the methods used by Mr. Antonelli in determining his trended original costs in Exhibit 20?

"Answer. I am.

"Question. Have you also studied the trending methods suggested by Mr. Gough of the Commission's Staff in Exhibit 74?

"Answer. Yes.

"Question. Will you compare these two methods,
6690 generally?

"Answer. Mr. Antonelli's methods express original cost in 1938 dollars and Mr. Gough's methods, if carried to completion would reflect, in addition, 1938 construction conditions and methods."

Mr. Springer. Well, what else can that mean except that Mr. Rhodes stated Mr. Gough developed a trending method to trend the company's original cost.

Trial Examiner. I think it would be well to develop this witness's testimony on the basis of what was said. If it is a matter of interpretation, everybody makes his own interpretation and I don't know where we are going to end up.

Mr. Springer. All right.

By Mr. Springer:

Q. On the basis of the statement read from the transcript by Mr. Milde, what is your answer to Mr. Rhodes comment?

A. What I did was to examine Mr. Antonelli's trending and by tests found that it had not taken into account the improvement in labor productivity per man-hour and, in one major instance at least, that the trending factors for material costs were based upon data not representative of the charges to which they were applied.

Mr. Milde. I move that that answer be stricken as not responsive to the question or the line of direct examination. He is
6691 supposed to state some inaccuracy in what Mr. Rhodes said about his methods.

Now he is going on to repeat his direct testimony as appearing in Exhibit 74 as I understand it.

The WITNESS. Mr. Examiner, at page 6229, the phrase "Mr. Gough's methods" appears 4 times, both from the mouth of Mr. Rhodes and from the mouth of counsel, and I developed no method for trending original cost.

Mr. MILDE. All right, that is your statement. That is sufficient.

By Mr. SPRINGER:

Q. Now, Mr. Gough, I call your attention to the statement of Mr. Rhodes on page 6230, and I quote: "First he assumes that all the improvements in effective labor productivity were due to methods of construction." Did you assume any such thing?

A. I did not.

Q. What did you do?

A. Using Mr. Antonelli's revised original cost and his labor rates I developed the fact that there has been an improvement in labor productivity per man-hour and that this impeached Mr. Antonelli's trending.

Q. Was it necessary for you to determine the reason for the general improvement in labor productivity?

A. No. A demonstration of the fact that there had been such an improvement was sufficient for my purpose.

6692 I might add, however, that aside from the peculiarities that relate to any single construction job, there are two general factors which tend to improve labor productivity per man-hour. They are (1) more efficient methods of construction——

Mr. MILDE (interposing). I object. Let me interrupt you. I object to the qualifications of this witness to answer that question from here on. He is purely an accountant. He is not an engineer and he is going on in answer to Mr. Springer's question.

Mr. SPRINGER. Just a minute. He made an analysis of the company's experience and, if anything, found that there was an improvement in productivity per man-hour of the company's own man power, when hours were shorter under modern conditions, and the technology of the machine age was at the disposal of the man power of the Hope Company in modern times.

TRIAL EXAMINER. Go ahead, finish your answer.

The WITNESS (continuing). And (2) shorter hours of labor. The displacement of the ox, which was referred to as a means of hauling pipe earlier in this case, by the automobile obviously speeds up construction. The shortening of the work week from 72 hours to 40 hours also makes the hour of work a more productive one, for long hours of labor go hand-in-hand with low productivity.

6693 By Mr. SPRINGER:

Q. Didn't you just make a statistical study of the Hope Company's experience on labor productivity?

A. I did.

Q. That doesn't require any engineering knowledge, does it?

A. Well the thing that Mr. Milde objected to, that more efficient methods of construction improved productivity, is the objection to a platitude, you might say.

Q. That is common knowledge——

A. (Interposing.) Because it is obvious that if you are more efficient, that is what efficiency is.

Q. At the same page——

Mr. MILDE (interposing). Which page?

Mr. SPRINGER. 6230.

(Continuing.) Mr. Rhodes says that Mr. Antonelli developed his pipe price trends from actual purchases of pipe by the company over the years?

Did you find this to be true?

The WITNESS. I found that in addition to using actual prices he also used estimates where no purchases of a particular size were made. For example, from 1915 to 1938, I understand—and I believe it is in this record—that there were no purchases of 2-inch pipe and that an estimate was used.

6694 By Mr. SPRINGER.

Q. Now, at page 6231 of the transcript Mr. Rhodes states that you "based your study on book cost, calling it original cost." What did you do?

A. I based my study chiefly on Mr. Antonelli's revised original cost. I did this for the reason that it was Mr. Antonelli's figures I was testing and the best test of the accuracy of his method was to use his own figures for that purpose.

Q. Now on page 6232 of the transcript Mr. Rhodes compares your figure of $2.80 per foot to trend in 1938 with his reproduction cost of $2.84. Was Exhibit 74 made for the purpose of exposing fallacies which might lie in Mr. Rhodes' reproduction cost new?

A. No, it was not. My task in that exhibit was to demonstrate the unreasonableness of Mr. Antonelli's trended results. That was the fly in the ointment that we were fishing for, and when one hauls it out and examines it, he finds that Mr. Antonelli trended well construction to $34,384,320 or to $4.30 per foot. This result

is obtained by using Mr. Rhodes' own figures of approximately 8,000,000 feet of aggregate depth of all wells. It is to be noticed that Mr. Antonelli's figure is a little over 50 per cent higher than Mr. Rhodes' figure of $2.84

6695 Q. In Mr. Rhodes testimony on the same page 6232 of the transcript, he compares your figure with his, apparently as a means of confirming his figure. Are your figures properly used for that purpose?

A. No, they are not.

Q. Why not?

A. My tests of Mr. Antonelli's trending did not extend to the reasonableness of his 1938 prices. In other words, I accepted them. Had I been critical of them, my first complaint would have been that they, assertedly based on company prices for 1938, represent a very small part of total plant. Page 98 of Exhibit 20 shows 1938 additions to plant to be $860,725 of total plant of $70,553,439, a ratio of about 1.2 per cent. Obviously, therefore, these prices which I accepted for the purpose of my exhibit are not properly usable as reproduction cost new prices, for it is apparent that prices representative of a little more than one per cent of the plant are no indication of what prices would be were the entire plant to be reproduced in 1938.

Q. Now, on page 6232 of the transcript Mr. Rhodes states also that you selected lines for the purpose of table 13, and that it is a partial list of lines. Is that a correct statement?

A. No. Page 35 of Exhibit 74 states what it represents. The analysis contains the cost of every job in the company's
6696 mains lines inventory ledger with the exception of those for which data could not be readily interpreted.

The jobs analyzed represent more than 3,000,000 feet of main and $3,000,000 of cost. This is a sizeable portion of all the company's mains construction costs which on December 31, 1938, according to Exhibit 20, were $5,266,108. Of course, the costs by lines jump up and down probably because of construction conditions, such as weather, terrain, and size of job. For this reason the over-all picture is better to be seen from table 14 which summarizes the averages for each size and period.

Q. And when you speak of table 14 do you mean Exhibit 74?

A. Table 14 of Exhibit 74.

Q. Mr. Rhodes testified on pages 6234 to 6235 of the transcript about conditions encountered in building pipe lines. What

have you to say about his comment in reference to your exhibit on that?

A. As I stated in the text of my report, and as Mr. Rhodes observes, it is hazardous to make comparisons of the cost of one pipe line with another. The construction of a pipe line is often surrounded by circumstances peculiar to it and perhaps almost every pipe line may be called a typical in some respect or other.

For this reason it is desirable to analyze large amounts of
6697 construction costs representing many feet of pipe and that has been done as table 14 indicates.

Q. Of your Exhibit 74?

A. Of Exhibit 74.

We believe the percentages of increase of production per man-hour shown on that table definitely indicate a tendency towards improved labor effectiveness.

Q. Now, Mr. Rhodes combined labor study of mains construction jobs to get an over-all figure. Why did you not combine your labor study of mains construction jobs to get an over-all figure in the manner that he did?

A. It would have complicated the method of my comparison and would have introduced a controversial point. My comparison has the advantage of showing like size compared to like size without raising any question as to the validity of a formula, and furthermore when the results by sizes are all examined it will be seen that they tend to confirm one another.

Q. At page 6238 of the transcript, Mr. Rhodes explains calculations he has made on an "inch-feet per man-hour" basis. Did you have the opportunity to check them?

A. No, I did not. I expected to go on yesterday and the papers were made available to me the day before at an hour and on conditions that didn't permit me time to examine them.

Q. Now, at page 6241 of the transcript, Mr. Rhodes states that he used the same wage rates that you used to find
6698 year by year the total man-hours required. Did you develop these wage rates to which he refers or did Mr. Antonelli develop them?

A. They are Mr. Antonelli's.

Q. On page 6242 of the transcript, Mr. Rhodes states "so that trending original cost, as Mr. Antonelli had done, in the light of an unchanging labor performance, really arrives effectively at the contract price in the field." Did Mr. Antonelli pay any

attention whatever to labor performance in the development of his trend factors?

A. No; he did not.

Q. At page 6242 of the transcript and 6243, Mr. Rhodes states that table 11 of your exhibit 74 is not a complete list. Is his statement true or untrue?

A. It is untrue. The amounts of $580,155.05 and $719,878.09 shown on pages 31 and 32 respectively of Exhibit 74 are exactly what they purport to be, namely an analysis of Mr. Antonelli's entire original cost revised for the years indicated, exclusive of overheads. Table 10 of Exhibit 74 shows these amounts with overheads added and they agree to the penny with Mr. Antonelli's original cost as shown on page 82 of his Exhibit 20. The difference between Exhibit 11 and 13——

Mr. Milde (interposing). Do you mean table 11?

The Witness. Table 11.

6699 A. (Continuing.) and table 13, which Mr. Rhodes talked about is readily explainable.

The Witness. He raised a question as to these two tables not agreeing.

Mr. Milde. Well, I think we ought to be fair to Mr. Rhodes and have his complete statement in the record. What it says is that these lists are not complete because of the omission of several sizes of pipe. One table omits some sizes and the other table includes them.

The Witness. Well, I can clear that up very readily.

Mr. Milde. You don't deny that that is a fact, do you?

The Witness. Yes; I do deny it.

Mr. Milde. That one of your tables omits some sizes and the other one includes them?

The Witness. Well, I do not deny that they are in one table and they are not in another, but when you use the colorful "omits" in it, I can't agree with you, because when you consider what I am doing, I don't omit anything. I have taken the company's records as they are and there is a very good explanation for the difference. The difference between table 11 and 13 which Mr. Rhodes talked about is not due to an error as Mr. Rhodes seems to imply. Exhibit 11 is an analysis of the mains

6700 construction existing in plant on December 31, 1938——

By Mr. Springer:

Q. You mean table 11?

A. Table 11. (Continuing.) Whereas table 13 is a tabulation of the construction that the company has undertaken, whether retired or not. Obviously, if the 325,000 feet which Mr. Rhodes refers to at page 6243 is not in the plant as of December 31, 1938, it has been abandoned or otherwise disposed of, or Mr. Antonelli's records from which I took the data is in error.

Q. Does this explanation also apply to Mr. Rhodes observation concerning 162,000 feet of 12-inch pipe?

A. It does.

Q. On the transcript page 6243?

A. Yes, sir; it does.

Q. So that the lack of coordination, which he complains about, arises from the fact that you have presented a full picture, namely, a comparison of construction costs in the plant existing at December 31, 1938, and also a comparison of costs whether still existing in plant or not?

A. It does, and it is improperly called a "lack of coordination."

Q. Then it does not indicate that you have made elective choices?

A. Positively not.

6701 Q. At page 6244 of the transcript, Mr. Rhodes refers to your comparisons as "an inadequate sample." Did you sample the company's mains construction cost or did you present the complete analysis of those costs?

A. I presented as complete an analysis as possible for the three important sizes chosen for my study. It represents more than 50 percent of all the mains construction that the company has ever made.

Q. The analysis presented in your table 11 of Exhibit 74, represents how many feet of 10-, 12-, and 20-inch construction?

A. 3,294,595 feet.

* * *

By Mr. Springer:

Q. Will you turn now to the page 78 of your Exhibit 74, which is a copy of a schedule taken from the company's financial statement of December 1938, and which shows the number of feet of main lines pipe by dimensions as of December 31, 1938, and will you add the number of feet of 10, 12, and 20-inch pipe shown on that schedule, and tell me the total number of feet of those three sizes?

A. 3,459,646 feet.

Q. Do you know the total amount of mains construction abandoned and retired?

A. I am told by Mr. Dunn that it is less than $1,000,000.

Q. So that your tabulation in table 13 of Exhibit 74

6702 can not properly be called an inadequate sample?

A. I think not. I might add that that $1,000,000 I referred to is all of the mains that have ever been abandoned by the company.

Q. At page 6246 of the transcript, Mr. Rhodes states that you applied a general over-all trend to individual purchases of pipe. Is this your method or Mr. Antonelli's method?

A. It is Mr. Antonelli's method. He applied a general over-all trend to pipe and for the purpose of disproving his answer I obviously had to follow in his footsteps. It is true that such an application to an individual purchase might be misleading, but when every purchase to the number of 61, with the exception of only one, which was a distress sale of pipe, gives the same answer, namely, that Antonelli's prices exceed Rhodes' prices, only one conclusion can be drawn.

Q. Mr. Rhodes also stated that your individual purchases are not a good criterion and that you should have taken a cross-section of all the purchases. What did you do?

A. Information for all important purchases of pipe greater than eight inches in diameter which could be obtained in the aggregate amount of $7,808,500, in shown in table 16 of Exhibit 74.

Mr. Milde. What page?

6703 The Witness. 47 and 48.

By Mr. Springer:

Q. Of Exhibit 74?

A. Yes. Pipe greater than eight-inch pipe was taken because it was the trending of the larger sizes specifically that was being tested. When it is recalled that the original cost of all pipe that the company has ever had in its Mains Equipment Account, of all sizes, is, at the outside, using Mr. Antonelli's figures, not much greater than $11,000,000, the term "individual purchase," as applied to $7,808,500 worth of pipe, is a misstatement.

Q. Again at page 6246 of the transcript, Mr. Rhodes states that "Mr. Antonelli investigated all the purchases made by Hope over the years and developed from the actual prices paid the cost over the years." Did Mr. Antonelli use the costs of

pipe greater than eight inches in diameter in developing his trend?

A. He did not.

Q. And what part of the Mains Equipment account, as it existed at December 31, 1938, consisted of mains greater than eight inches in diameter?

A. About 95 per cent of it.

Q. So that Mr. Antonelli's pipe cost trend was developed from costs of pipe of sizes which in money amounted to only about 5 per cent of the account as of December 31, 1938?

6704 A. That is correct.

Q. At page 6247 of the transcript, Mr. Rhodes testified that "the reproduction cost new price of pipe is approximately 20 percent lower than Mr. Antonelli's trended prices." True or false?

A. False.

* * *

A. Pages 47 and 48 of Exhibit 74 show percentages of the excess of Mr. Antonelli's pipe cost as trended over Mr. Rhodes' pipe cost far in excess of 20 percent, and these excesses were developed by comparison with the pipe prices in Rhodes' appraisal before deducting 10 percent for quantity purchases.

If you add to these percentages the 10 percent quantity reductions which are not taken into account in Exhibit 74, there are only five purchases out of the 61 that are less than 20 percent. Most of them run very much higher than 20 percent, as a glance at column "L" of table 16 shows. The highest is 73 percent in excess of Rhodes and others are similarly high.

Q. The prices which appear in column "J" of table 16, on pages 47 and 48 of your Exhibit 74—is that right?

A. Yes, sir.

6705 ~~Q. (Continuing.)~~ Were taken from what source?

A. They are the unit costs per foot for material taken from pages 260 and 261 of table 16, part "D"——

Q. (Interposing.) You mean Exhibit 16?

A. Exhibit 16, part "D" which is Mr. Rhodes' reproduction cost new of the company's property as of December 31, 1938.

Q. And after Mr. Rhodes had applied these prices to the quantities of pipe for each size in his appraisal he made an over-all deduction of 10 percent for wholesale purchases, did he not?

A. He did, and that is shown on page 259 on Exhibit 16, part "D."

Q. But the prices shown in column "J" of table 16 at pages 47 and 48 of Exhibit 74 are ten percent higher than they would be if Mr. Rhodes' ten percent reductions were taken into account?

A. They are ten percent lower than they would be if Mr. Rhodes' ten percent had been taken into account.

Mr. Springer. Will you read the question.

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. I heard your question, and they should be ten percent—they are, as they stand, ten percent lower than they would be.
6706 Oh, excuse me. The prices. The prices are higher. That is correct. I misspoke myself.

Q. Well, doesn't it follow that, if Mr. Rhodes took an over-all ten percent deduction on the prices——

A. (Interposing.) Afterwards.

Q. (Continuing.) Afterwards, that the prices that were used for your study of trended original cost are ten percent higher?

A. That is correct. I misspoke myself.

Q. At the foot of page 6247 of the transcript, Mr. Rhodes, in commenting upon Exhibit 74, states that "the other explanation is that, in reproduction cost new, I took a lump sum over-all ten percent discount below the manufacturers' quotations, less usual discounts, so that we would expect pipe trends based on actual cost to be higher than reproduction costs on a similar basis——"

Mr. Milde. Well, why don't you finish the sentence?

Mr. Springer. "Namely, without overheads, and such proves to be the case."

By Mr. Springer:

Q. Is this a true explanation of the percentages of difference which appear in column "L" of table 16 of Exhibit 74?

A. No. It is not, for the reasons that I have just given.

Q. At page 6248 of the transcript Mr. Rhodes said, "Now
6707 some of the items listed in Mr. Gough's tables show a greater than 20 percent and some show practically no difference at all, but they all wash out to approximately the 20 percent difference which I have just described, by comparison with the over-all figures." What do you have to say of this explanation of the difference?

A. It is a false explanation of the definition of what the comparison shown in table 16 of Exhibit 74 indicates. This can be seen by a casual examination of column "L" of table 16 of Exhibit

74 especially if the additional ten per cent on quantity purchases is kept in mind.

Q. Does that conclude your comments upon the statements made by Mr. Rhodes or the interpretations made by Mr. Rhodes of your Exhibit 74?

A. Yes, sir; it does.

Mr. SPRINGER. That is all.

* * *

Cross-examination by Mr. MILDE:

Q. Mr. Gough, referring to your last statement, you don't quarrel with Mr. Rhodes' figures, do you, that if you take the columns "K" and "L," I believe on table 16, that if you add up all the figures and compare the lump sum differences, that the
6708 prices, as you show them for Mr. Antonelli and Mr. Rhodes are approximately 20 per cent difference. You don't quarrel with his mathematics on that, do you?

A. No; I am not quarrelling with the mathematics of that.

Q. Did you make that calculation?

A. No; I did not.

Q. I see. Your comment isn't based on the mathematics of it, but on some other things that you expressed in your direct testimony?

A. Yes. It is based also on another comparison that I made of the Rhodes prices for 2, 3, 4, 6, and 8 inch pipe which was used as the basis of his trending, as compared with Antonelli's prices for 1938, and that difference was 14 per cent. If you added to that 14 per cent the 10 per cent over-all quantity discount, you get 24 per cent which would be something higher than Mr. Rhodes.

Q. Well, you recognize that Mr. Rhodes' reproduction cost new prices as he used them are substantially below the prices actually paid by the company in 1938?

A. Well, I haven't made any examination of Mr. Rhodes' reproduction cost appraisal. I wouldn't care to comment on it one way or the other.

Q. Well, you made a sufficient examination to develop your table 16 that you have been talking about, haven't you?

6709 A. Maybe I misunderstood your statement. I thought it led to comment by me on Mr. Rhodes' reproduction cost appraisal. May I have the question?

* * *

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. I couldn't answer that, because I haven't compared them. His prices were below the prices used by Antonelli for these low sizes of pipe. I stated that and, of course, Antonelli's prices included, at least for the 2-inch, an estimate.

By Mr. Milde:

Q. For 1938?

A. I think so; yes. I don't think the company purchased any 2-inch pipe in '38 or for a number of years prior to that.

Q. Well, do you know what prices Mr. Antonelli used for his 1938 prices in making his trending?

A. Yes; he used 2, 3, 4, 6, and 8-inch pipe.

Q. I mean, what prices they were?

A. For what period and whose prices?

Q. Yes.

A. They were the prices that the company paid.

Q. They were the prices that the company actually paid
6710 in 1938—that is, the average for 1938 purchases—were they not?

A. Yes. If they paid such—if they made such purchases. Now ——

Q. (Interposing.) Well, I think you have answered my question.

A. I am looking at a table that gives these 2-inch pipe prices and it is a very bad reproduction, that I referred to when I introduced the exhibit, and now I am having trouble with it because I am looking at page 75 ——

Mr. Springer. (interposing). Of Exhibit 74?

The Witness (continuing). Of Exhibit 74 and I can't distinguish whether his indication is that that is an estimated price or not.

By Mr. Milde:

Q. Well, there is no note opposite it indicating that it was either obtained from the Peoples Company, or was a trended cost, is there?

A. Well, there is a narrow line running down there. It doesn't seem to include '38 but I wouldn't be sure of it.

Q. Now, with reference to your comments about selection of lines, Mr. Gough, which of your tables on line construction is the most comprehensive?

A. Tables 13 and 14, which are really to be taken
6711 together, is more—includes more pipe line construction than table 11.

Q. Tables 13 and 14?

A. Yes, sir.

Q. Now, turning to table 14, will you tell me why you omitted 16-inch pipe from this comparison or determination, or whatever you call it?

A. Yes. Let me say this first, Mr. Milde, that every test that I made in this study I have included—that is, I haven't made tests which I excluded. When I made the study I was assigned to the study singly. I had no help. I was fortunate in getting assistance of a couple of the men at Clarksburg in their off time from their regular jobs, and I was faced with the difficulty of trying to get an over-all view of this picture without a tremendous amount of detailed work, so that I chose three sizes, and I chose sizes that I thought would be representative.

Q. Well, Mr. Gough, do you know that there is a very substantial amount of 16-inch pipe in the company's inventory?

A. Yes; there is.

Q. And you didn't in this comparison, use any 8-inch pipe, did you?

A. No; I used only 3 sizes out of a number of sizes.

Q. Well, is there more difference between the installation
6712 of 10 and 12-inch pipe than there is between 8 and 12 or 16 and 20?

A. No; I can hasten to say that if I had had time to make the entire study, it would have been more satisfactory than picking out three sizes. I was faced, as I say, with the problem of doing this work with the resources at my disposal and at the same time trying to get an answer that would be fair, and I feel that I accomplished that.

Q. Well, why did you start with 1905?

A. That was the first year that we had any record of those sizes. We took the books from the very beginning, 1898, and we listed every job that we could, and that was the first year that we got that--that one of those sizes appeared.

Q. And I suppose the reason that you eliminated H-1, which was the first line built by the Hope Company in 1899, was because that was 10-inch rather than one of these sizes that you selected?

A. It was 10-inch, you say?

Q. Ten inch; yes, sir. $10\frac{3}{4}$ inch, O. D.

A. I don't think we would have eliminated it for that reason, Mr. Milde. I just can't, at this late time—unfortunately, Mr. Whitney, who helped me with the details is no longer here. I just can't tell you why we didn't accept that, whether the details weren't available in sufficiently good shape or what the reason was.

Q. Well, perhaps that was because it was installed in
6713 1899 rather than in 1905?

A. Oh, no. We started from the very beginning.

Q. I see. Well, then, can you tell me now why you omitted lines H–2 and H–8, both 12-inch pipe and totalling some 150,000 feet, H–2 being installed in 1905 and H–8 in 1904?

A. The reasons must have been that the detailed information on those jobs was not in such form that we could use it.

Q. Well, you don't really know about that, do you?

A. Well, I know that we took everything. You are asking me now—that job was done a long while ago and the man who worked on that particular detail is not here, but I am sure that is the reason.

Q. Well, you don't deny Mr. Rhodes' statement that all sizes and all lines have not been studied in your exhibit or analyzed in your exhibit?

A. Oh, no; there is no question about that.

Q. Before we go on I wish you would explain your statement that you didn't have time to examine Mr. Rhodes' working papers. Is that what you meant?

A. Yes. Well, it is simply this: that when Mr. Rhodes left the stand the other day, I had those papers for about an hour I had to go upstairs and didn't have the opportunity to reach them.

Q. Well you know we had them here for you the next day?

6714 A. Well, I will tell you the whole story and that will finish it.

Q. Now——

A. (Interposing.) Well, let me tell you the whole story.

Q. All I am interested in knowing is: you don't say we didn't give you an adequate opportunity to check over those figures?

A. That is exactly what I do say.

Q. All right, then, you better tell your whole story.

A. At 4:30 one of his assistants appeared at my office and asked me for the papers so that I didn't have them that evening.

Q. How long had you had them that day?

A. About one hour.

Q. And how many papers were there?

A. There weren't many, but I had other things to do when I left the hearing room.

Q. So you had them an hour and you didn't look at them?

A. That is right.

Q. All right, proceed.

A. The next day I sent one of my assistants down here in the morning and they were not here—they were over at the
6715 hotel—and he accompanied Mr. Rhodes over to the hotel and Mr. Rhodes declined to give him the papers, and they appeared with the papers at my office, I think, about a quarter to two, and they wouldn't leave the papers there. They wanted to give us copies of them. Well I just—by the time copies were made, or they copied them, I wouldn't have had time to prepare myself to go on the stand—as I thought, the next morning, which was yesterday—and so I simply didn't choose to delve into the matter at all, rather than look at them hastily.

Q. And the fact is that we offered to make copies for you, isn't it?

A. At a quarter to two.

Q. When?

A. On Thursday.

Q. On Thursday?

A. Yes.

Q. And today is what?

A. Today is Saturday.

Q. Now, Mr. Gough, you made some comments about productivity. Are you an engineer?

A. No, sir.

Q. Have you ever constructed a pipe line?

A. No, sir.

Q. Have you ever done any construction work?

A. No, sir.

6716 Q. And is it your view that there is more or less lost motion, so far as man-hours of labor are concerned, under present working conditions, when you knock off after 8 hours, rather than the old days when you worked ten and twelve hours steadily.

* * *

A. I think that the man who works long hours in employment does less because, for several reasons—does less per man-hour—he is more susceptible to illness and the time that he is ill is unproductive time. He has to be excused more often because his free time is frequently not sufficient for his personal needs, and, obviously, he is subject to greater fatigue, and that is cumulative because the long hours give him less time to——

By Mr. MILDE:

Q. (Interposing.) For recreation?

A. No. To refresh himself. Because if he goes out and has recreation, he is liable to do less than if he didn't.

Q. And is that all?

A. Well, that is one of the features of the long day.

Q. I see. And that is what you based your opinion on in this case?

6717 A. Well, I wouldn't say that I based my—I think my opinion in the matter is immaterial. The facts speak for themselves. I was interested in looking up the problem of productivity and I think it is one of the amazing things of our age, that in the last 15 or 20 years there has been the tremendous increase in productivity in practically every industry.

Q. Now, Mr. Gough, what study have you made of the laborers down in the hills of West Virginia? Do you think they are more or less healthy and get time off if they work 10 or 12 hours a day rather than 8 hours?

* * *

Mr. SPRINGER. Mr. Gough said that he studied the company experience on labor performance and Mr. Milde has not kept within the scope of his examination, but he listed an opinion of Mr. Gough's, which he happens to have based upon

6718 his studies of the phenomenon of greater labor productivity under shorter hours and modern working conditions than in the earlier part of this century.

Mr. MILDE. Of course, if Mr. Rhodes developed the results that Mr. Gough achieved, it would not show that you get greater productivity in West Virginia.

I want to develop the basis for Mr. Gough's opinion as to why there should be greater productivity. Not in some garment factory in New York or in some tooth paste manufacturer in New Jersey, but the men working down in West Virginia.

That is what we are concerned with here. I want to know and I am entitled to ask him whether he has made the slightest

study of these conditions as he has described them, as applied to the West Virginians who actually work in these pipe lines.

Mr. SPRINGER. The point is that he took the company's actual experience. Can't we confine our examination to that?

* * *

6719 Mr. MILDE. Is there an unanswered question on the record?

(Whereupon the pending question, as above recorded, was read by the reporter.)

TRIAL EXAMINER. As I understand, this witness testimony and his exhibit are confined to man-hour productivity, as shown by the books of the company.

The WITNESS. [Nodding.]

TRIAL EXAMINER. But based on his opinion as to the productivity of labor in that immediate territory or in any other parts of the United States?

Mr. MILDE. Well, as I understood it, on Mr. Springer's direct examination, he ventured some opinions that of course it was a mere platitude that labor is now more productive than it was in the earlier days, and that is what I am examining him about.

TRIAL EXAMINER. Are the conclusions he arrives at in his exhibits based, to any extent, on that opinion?

The WITNESS. No: they are not based on opinion: they are based on the facts as recorded in the Company's books and in Mr. Antonelli's studies.

By Mr. MILDE:

Q. As you interpret them?

A. Well, it is an interpretation like 12 divided by 3 is 4. That is the kind of interpretation it is.

6720 Mr. REEDER. Mr. Examiner, I submit that the question which counsel asked this witness on cross-examination, having gone outside the scope of the direct testimony, calling for an opinion, which was primarily an engineering opinion, counsel is bound by the answer of the witness and not entitled to cross-examine him further about it. He made him, for this purpose, his own witness, and he can't cross-examine him, and he has no right to be surprised by the answer that he got.

TRIAL EXAMINER. Objection sustained.

By Mr. MILDE:

Q. Well, Mr. Gough, you didn't test the results of your figures, as you show them in your Exhibit 74, as to man-hour produc-

tivity, by any engineering study or analysis or industrial study of labor conditions in West Virginia, as they are applicable to the building of pipe lines from 1898 on?

A. No; I did not. I used only the facts as they relate to the Hope Company.

Q. And just what did you mean by man-hour productivity? Isn't it a fact that that is a computed figure?

A. It is the result of a computation; yes. You take the units of work that are done, the cost of doing that work, the number of hours spent in doing the work, and out of those facts you get the productivity.

6721 Q. Well, you didn't actually ascertain the hours that were spend in doing the work, did you?

A. I ascertained the hours that were spend doing the work, pursuant to Mr. Antonelli's formula, which is this: If you spend a hundred dollars for labor and you pay men on an average 25 cents an hour, it is self-evident that you have gotten 400 hours of labor for that hundred dollars.

Q. Well, will you point to any place in Mr. Antonelli's exhibit where he used a formula of that sort?

A. Well, his whole trending is shot through with that. That is the way the labor is trended. He takes the money and he says that the average rate at which that money was spent was 25 cents or 50 cents an hour, whatever it is.

Q. Well, he never determined the hours of labor for various lines in the—over the course of the Company's history?

A. He didn't do it for various lines. He did it over all by years for each account.

Q. Do you mean to say that anywhere in his exhibit or in his working papers he determined the hours of labor expended in constructing the Company's property?

A. No. If I gave that impression, I am mistaken. Mr. Antonelli wasn't interested in hours, but it follows that if he says the labor rate for so much money was such a rate, there
6722 can be no other answer than that that represents so many hours of labor.

Q. Mr. Gough, will you turn to Page 31 of your exhibit and take your first item of 10-inch line in 1911, installed in 1911, where the original cost, exclusive of overheads, is shown as $8,106? Then, isn't this what you did: You took the average hourly wage rate of 21.9 cents, as shown in your Column E, and divided that into the $8,000 to get man-hours expended?

A. That is exactly what I did.

Q. And that doesn't indicate how many hours of labor were actually required to build that line, does it?

A. No. It is not an actual figure. It is a derived figure.

Q. And you don't know whether it took actually 16,000 hours or 40,000 hours?

A. No.

Q. That is just the computation to get some sort of a factor?

A. Yes; it is a computation like Mr. Antonelli's original cost trended is a computation, and it doesn't violate any of the assumptions that Mr. Antonelli has made.

Q. And nowhere in your exhibit do you actually show how many hours of actual labor it took to install any of the Company's lines, either early in its history or late in its history, do you?

6723 A. No; except as derived by this formula.

Q. And if you wanted some completely accurate data as to how much work a West Virginian pipe-liner could do in 1938, as compared with what his father did in 1910, you would have to make some time studies, wouldn't you?

A. You mean—well, that is on the assumption that the Company book costs are not correct, or that the rates that Mr. Antonelli used are not correct?

Q. Not at all.

A. Well, no, I think that the best indication, assuming that Mr. Antonelli's costs are correct, and that his labor rates are correct, if you divide his cost by his labor rate, you will get the number of hours expended. Otherwise he has got a mistake somewhere.

Q. Yes; but you don't get the hours expended, Mr. Gough; you just admitted that. You don't know whether those are the actual hours of labor expended or not?

A. No; I didn't say they were the actual hours expended. I say, you get the hours as I have shown them by that method. Now, if Mr. Antonelli's original cost is wrong, or if his labor rate is wrong, then the answer is wrong. If the money spent is right, and if the wage rate is right, the hours have to follow, like night and day, as being correct.

Q. Well, Mr. Gough, isn't it perfectly apparent that
6724 you have got a lot of other costs besides labor costs?

A. In the labor accounts?

Q. Sure. You have got the use of machinery and equipmen and all that sort of stuff?

A. That is true. It is a relatively minor thing, and Mr. Anto nelli so treated it, because he used a labor rate to trend the whol account, and, if you are going to pick trouble with me on tha score, you would have to pick trouble with him on that score

Q. I am not trying to pick trouble with you at all, Mr. Gough I just want your statement, and I think you have made it, tha when you use man-hours expended in your exhibit that that i not actual man-hours-expended, but a computed figure.

A. That is correct.

Q. Now, you have made a comment, I think, in reply to Mr Springer, that what you wanted to show was not methods of trending, but that Mr. Antonelli's trends were unreasonable, i that the substance of what you stated, Mr. Gough?

A. Well, I didn't want to show that they were, but I wa obliged to, when I made the study.

Q. But you yourself, you say, developed no methods of trend ing—is that your testimony?

A. No. I have no thoroughgoing method of trending

6725 there.

Q. Let me ask you; when you state, on Page 7 of your exhibit, for example, in the second paragraph, last sentence referring to two studies for various years which you described in the first part of that paragraph, and when you go on to state "In both studies, the ratio that the costs of earlier years bear to the costs of 1938 were developed and compared with the trend factors used in Exhibit No. 20," what do you mean that that ratio is?

A. You mean what makes them comparable with the trend factors?

Q. No. What is this thing that you developed? You say it isn't a trend factor.

A. Well, it is a ratio that the costs of earlier years bear to the cost of 1938.

Q. Well, if you wanted to take the cost of earlier years and find out how you would translate them into present prices, wouldn't you apply these ratios that you use?

A. That might be—I think it would be a fairer method than Mr. Antonelli used, by all means. The only thing, however, is

that I wouldn't want to be placed in the position of saying, if I were making a trend, that I would exactly do that, because I haven't considered the question of what the right answer of how to get a trend exactly would be, you see.

6726 Q. But aren't these ratios that you develop all through your exhibit really trend factors developed on a different basis, which you used to say well, you don't think Mr. Antonelli's trend factors reach the right result?

A. Well, they are not trend factors, because I have not used them for trending, and if I were going to develop a trend I would have to consider a number of other things. For example, I would have to consider whether I would use the prices for 1938 that Mr. Antonelli used.

Q. Well, if these ratios that you have developed aren't trend factors based on another method of approach or analysis, or giving consideration to factors other than what you think Mr. Antonelli did, how could you say that his trend factors don't reach the right results because they don't reach the result that you would use if you used these ratios?

A. Well, I think it is possible, Mr. Milde, to point out the flagrant errors or mistaken methods that one man uses, without completely developing what you would do if you were going to do the job. That is all I am trying to say.

Q. Well, you would say, Mr. Gough, wouldn't you, that these ratios or trend factors that you developed would be items that you think ought to be taken into consideration in any proper trending?

6727 Mr. Reeder. I object.

Mr. Springer. I object.

Mr. Reeder. The witness testified that he hasn't developed any trend factor, and counsel is trying to put words into the record that don't belong there.

Mr. Springer. This is outside the scope of Mr. Gough's examination.

He said that he took Mr. Antonelli's study and made a test of it. He starts out with an assumption, for purposes of making a test with Mr. Antonelli's figures. He doesn't know whether they are right or wrong, but all he does is follow Mr. Antonelli in his reasoning, and tests it to find that it is in error.

Trial Examiner. Objection sustained.

Mr. MILDE. Note an exception.

By Mr. MILDE:

Q. Well, Mr. Gough, these ratios that you developed were not trend factors?

* * *

6728 A. They haven't been used to develop a trended cost.

By Mr. MILDE:

Q. I understand that. You haven't applied them to the whole property. But what are they?

A. Well, they are ratios of the cost of one period to the cost of 1938, as Mr. Antonelli developed costs for 1938.

Q. And what——

A. (Interposing.) I think he might better have used them as trend factors than what he did. Whether I would have so used them is another question.

Q. Well, your criticism of this and his unreasonableness, as you expressed it to Mr. Springer, is based on the fact that his results don't coincide with the results that you get by applying these ratios, isn't that so?

A. That is correct.

Mr. SPRINGER. Read that. I didn't testify anything. Read it, please.

6729 Mr. MILDE. You are doing your best to testify.

(Whereupon the last question, as above recorded, was read by the reporter.)

Mr. MILDE. And read the answer.

(Whereupon the last answer, as above recorded, was read by the reporter.)

By Mr. MILDE:

Q. Now, tell me why, Mr. Gough, you prefer the results of the application of your ratios to Mr. Antonelli's ratios.

A. They take into account the factor of productivity.

Q. And what does that mean?

A. Well, it means that you relate to the costs of today the methods of today.

Q. Well, let me ask you this: What result do you think he should have reached?

A. Oh, well, I don't know. You are asking me to extemporize a trended result.

Q. No. I don't mean in figures. I mean in principle. What result should he have reached?

Mr. SPRINGER. I object to it.

A. I am not prepared to say what his trend should have been, Mr. Milde.

By Mr. MILDE:

Q. No, but what should he have reflected in his final figures? You say he should have reflected present productivity
6730 and present prices, is that it?

A. Well, Mr. Milde, a trend usually is conceived as a short-cut to a reproduction cost new appraisal, and ideally, I think should equal—that is to say, if the original cost is correct, and if your factor is correct, you come to the same result that you would by pricing all of the property out at its present reproduction prices, but I wouldn't want you to put me in the place of saying what answer you should get by a trending or a reproduction cost appraisal, because that hypothesis involves, frequently, a tremendous number of incongruities. For example, you have 3,300 wells; if you had to drill them in '38 I don't know whether you could get the equipment or the trained personnel to drill them. It presents you with a great many problems.

Q. Well, I was just interested, Mr. Gough, in your theory that he reached an unreasonable result, and, as I get your testimony, you think he reached an unreasonable result because he arrived at costs which were higher than reproduction cost would be.

A. Yes; I just pointed out that one unreasonableness in his result. Now, if he had eliminated that, it was a major one. There might have been others—many others.

Q. And you also think, as I understand it, that, if he had
6731 done a job just as carefully as could be done, and following all suggestions that you might give him to assist him on that, that he ought to arrive at a reproduction cost of the property?

A. Well, Mr. Rhodes stated that ideally the two should come to the same answer, if you take into account the productivity factor, but I am not an expert on reproduction cost appraisals. I have never made one and I hesitate to tell you how it should be done.

* * *

By Mr. Milde:

Q. Of course you recognized, Mr. Gough, in your exhibit, did you not, that what Mr. Antonelli purported to do was not to arrive at present reproduction cost estimate by a trending development, but to determine what this property would have cost, as it was actually built if the prices now prevailing for labor and material had actually prevailed since the beginning?

* * *

6732 A. Yes; that is what he purported to do.

By Mr. Milde:

Q. Now, Mr. Gough, when you state, on Page 1 of your
6733 exhibit that the purpose of your study, and examining Mr. Antonelli's trends, quoting them, was to learn exactly by what means it was effected, and to ascertain whether the results obtained were in any sense a fair value of the Company's property. What you meant there was whether or not Mr. Antonelli's results reached correctly present prices and present labor productivity, and, in short, present cost of the properties, as they would be built today?

A. Well, either that or any other—there are two major tests of fair value—that is, original cost and reproduction cost—to be considered, and whether this met one of those tests.

Q. Well, your quarrel with him was that he arrived at results that were, in effect, higher than what reproduction costs would be as of today?

Mr. Springer. I object to that. Mr. Gough has said he just tested Mr. Antonelli's methods and found defects in them.

Trial Examiner. And he criticized them?

Mr. Springer. Yes, but he didn't care what Mr. Antonelli's answer was. It was the method of trending that he was testing.

Mr. Milde. You can't test a method and say it doesn't reach the right result unless you know what result should have been reached.

* * *

6734 Trial Examiner. I assume, when you say "quarrel," you mean "criticism."

Mr. Milde. Criticism; yes.

Trial Examiner. Objection is overruled.

A. In effect, that is what he did, and I think it is the result of his methods which I think are at fault.

By Mr. MILDE:

Q. And that is why you criticized his methods?

Mr. REEDER. I object to that. The witness answered the previous question. Now counsel is trying to get him to say what reproduction cost ought to be today. He said over and over again that he isn't testifying as to that and, of course, it would be improper if he did.

TRIAL EXAMINER. Objection sustained.

Mr. MILDE. Note an exception. That is all.

362 **TESTIMONY OF HOPE WITNESS CHISLER ON DEPLETION AND DEPRECIATION**

Transcript Pages 362–373

Cross-examination By Mr. Springer:

Q. Will you refer to page 21 of Exhibit No. 11, please? In the account Depreciation and Depletion Reserve under the year 1934, in the amount of $5,901,317.53, will you please explain the basis for that transaction?

A. In the year 1934, we adjusted our Depreciation and Depletion rates downward, and we applied that adjustment back to January 1, 1927, and we transferred from the Depreciation Reserve to Surplus this $5,901,317.53, with the approval of our West Virginia Public Service Commission.

* * *

Q. You say that you adjusted your depreciation rates downward in 1934?

A. That is right.

Q. What was the basis for that adjustment? Do you
363 have studies which reveal that you were charging too much annual depreciation expense?

A. Mr. Springer, you will notice that we have very high depreciations accrued, some $40,000,000, and we knew that that amount was greater than was needed for various provisions, and in determining this amount to adjust, our surplus was down rather low in the end of 1933, and we transferred the amount that we thought would be necessary to carry on our business in the amounts that might be needed. In adjusting those rates, we took into consideration, of course—we made a study of our retirement losses and other provisions for which depreciation might be needed.

Q. Do you have that study available?

A. We have where the adjustment was made.

Q. You spoke of a depreciation study which prompted you to change your rate of depreciation on certain property, I believe?

A. In determining these rates, we applied—at the end of 1926, we had settled our tax matters with the Income Tax Department, and the rates that they had approved for tax purposes, a number of them were used in this adjustment.

364 Q. Is there a study which was prepared by your staff to determine the proper rates of depreciation for the various classes of property for 1934 on?

A. No detailed study; no, sir.

Q. How did you reach the conclusion without a detailed study?

A. It was more a—there was no detailed study made. It was more of a judgment figure.

Q. How do you account for depreciation?

A. I might explain briefly that over a period of years—over a 40-year period, it has been the practice of the company to set up annual amounts that would provide for retirements—the amount of money that we would need in the business to develop the property.

Q. Was that based upon age life studies?

A. No, sir.

Q. And the result of setting up that—that is a judgment figure, I assume?

A. Well, the whole plan was to keep enough money from revenues, from earnings, to develop the property with. There is a substantial amount of it that has been developed from money retained in the business from revenue.

Q. Do you have a study of the life expectancy of the various classes of property in the Hope Natural Gas Company?

A. No; we do not.

365 Q. Do you know the present age of the major classes of property in the Hope Natural Gas Company system?

A. No; we do not.

Q. On page 6 of Exhibit 11, you show that for production system property, you reduced the rate of depreciation for unoperated acreage, for instance, in 1929, from 10 percent to 8 percent in 1938. What is the explanation for that?

A. Beginning with 1923, we had set up 10 percent on unoperated acreage to make provisions for acreage cancelled and surrendered, and that rate was found to be accumulating too much in amortization, and it was reduced to 8 percent.

Q. And how did you reach the conclusion that it would accumulate too much?

A. Well, the amount accumulated over the period of time was too large in proportion to the amount of investment in that unoperated acreage.

Q. What is the explanation for reducing the rate of depreciation on general structures from 5 percent in 1929 to 3 percent in 1938?

A. These different rates on various classes of property were only used and adjustments made to determine the annual
366 amount—the adjustment in the annual amount that we wanted to reduce.

Q. You said that you do not have the information on the age or the average age of any of your classes of property?

A. We do not have it as such; no.

Q. In your annual report to the West Virginia Public Service Commission, don't you set out the pipe by size and average age?

A. I believe in making that report there is some computation put in there—some figure put in. However, it does not mean anything as to the actual age. It is an average.

Q. You file them as actual reports on the operations and information about your company?

A. The report called for it, but we did not have the information, and there is just some computation made there on an average basis. It is not exactly correct, but it is used as an average age.

Q. You say over the 10-year period mentioned in your Exhibit No. 11, page 6, there has been a decrease in the annual depreciation rate. You say that there is no scientific study upon which you base that decrease?

A. No; there is not.

367 Q. Well, I cannot understand how you can guess at what is a proper annual rate of depreciation without mortality data or age-life information of your property. How did you do it?

A. The plan that we followed, as I explained to you, Mr. Springer is—we take into consideration the annual amount of money that we might need. We know what our retirement losses have been over the past few years, and we know what our losses to capital account has been, and we take all of those different factors into consideration, and we aim to keep in our business a certain amount of money needed to provide for those things rather than to do new financing.

Q. What will you do under the prescription of the new Uniform System of Accounts prescribed by the Federal Power Commission effective January 1, 1940, which prescribes for the annual accruing for depreciation accounting on other than the retirement account basis that you speak of?

A. We are now installing that system and we are having our engineers and so on make a study of these depreciation matters, and we will endeavor to put that into effect.

* * *

369 A. It has no connection with these statements here, Mr. Springer. It is a separate matter. I have been trying to tell you what we have done. You will notice that we have got $10,000,000 here in these depreciation reserves. The company is 40 years old, and there has been no scientific study made of this depreciation and so on in the plant, in fact we did not operate that way, and as I have endeavored to explain to you before, it has been the company's plan and procedures and working all down through—of course, 40 years is a long time—but they have used this depreciation here just as I see it in keeping in the business and retaining from revenues and so on the money to finance themselves and to develop their property. A substantial amount of their property has been developed through this medium rather than to—in fact, you could have—if you had had the actual accrued depreciation in the plant, you could have set up a smaller amount, and if you had followed the same procedure you would have had a very large surplus, so that in the $40,000,000, quite a bit of that is excess surplus. On the other hand, with going along on that basis, if they had paid out—if they should have paid it out in dividends and then extended their plant and additions, we would have had to put
370 out new financing to do it, but they elected to go this route.

Q. You have never practiced depreciation on what is known as a straight line basis?

A. Well, we have applied different rates to various classes of properties. Those are kept more as working sheets or data like that in order to accumulate—in order to determine the annual amount, whether you wanted 1½ million dollars, whether you wanted 2 million dollars. However, the amount that is accumulated on the various features of investment in the depreciation

account really does not mean anything as to the actual depreciation of the plant.

Q. Those working papers you spoke of were the basis of your conclusions? Could those be furnished to Mr. Lyon tomorrow?

A. You have reference to this adjustment that was made in 1934?

Q. Yes; I would like to see the studies that were made. You spoke of negotiations with the Bureau of Internal Revenue. You apparently had studies to back your claim up, and if you would give Mr. Lyon access to those tomorrow, I would appreciate it.

371 A. I think we furnished to your staff the rates that the Bureau of Internal Revenue had fixed for the various classes of property on a straight line basis.

Q. The working papers behind those are available, aren't they?

A. We had no working papers.

Q. How did you substantiate you claim for certain depreciation rates at that time?

A. With the Bureau?

Q. Yes.

A. They fixed the rates.

Q. Do you have the basis of their computations?

A. No; that was done—at the time these rates were agreed upon, and so on, was just by discussion and talking the matter over and a certain rate was on transmission, and as I recall it was 3½ percent—transmission investment. A certain rate on this class of property or that class of property and certain allowance was made.

Q. Didn't you disagree with them on any of the rates of depreciation that they selected?

A. Yes; we may have argued with them on some of them.

* * * * *

373 Q. Mr. Chisler, will you refer to page 21 of Exhibit 11 again, the item of Depreciation and Depletion Reserve in the amount of $5,901,000. Is not that adjustment of those reserves properly an adjustment of operating earnings shown on page 20 of this exhibit?

A. I would say not. We had closed our books for these various years, and after this 1934—this adjustment was made direct from the depreciation reserve to surplus. Page 20 shows just exactly what we did on our books.

Q. But the origin of the approximately $6,000,000 is operating income, isn't it?

A. Well, of course, on your depreciation expense along there —if you would change that depreciation expense it would show a different result in the net income.

Q. That is what you are doing in effect, is it not?

A. Well, you make adjustments from time to time for prior years, dividends, and so forth. You may adjust your surplus account, but your surplus adjustments will be taken ito consideration on any study that you want to make of the year's business. We have done this just as it is reported on our books.

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880 TESTIMONY OF HOPE WITNESS RHODES ON OBSERVED DEPRECIATION

Transcript Pages 880-1013, 5308-5313, 5962-5965

* * *

Cross-examination by Mr. Springer:

Q. Mr. Rhodes, in Exhibit 21, reproduction cost new less depreciation of company properties as of December 31, 1938, will you define depreciation as you have used it in your exhibit?

A. In brief, it is the extent to which probably has been consumed or otherwise used up in the operation of the company.

Q. Is that loss in service value or physical deteriora-
881 tion?

A. It is all the depreciation which exists, in fact, in the property.

Q. Could you list the elements that cause depreciation?

A. Corrosion, wear and tear, deterioration from the elements, exhaustion of gas wells, and to a minor extent, the obsolescence of certain parts or types of equipment in the property which are leading to retirement.

Q. Did you also consider inadequacy of equipment?

A. To the extent that it has any application; yes.

Q. You have probably described changes in the art as obsolescence; is that so?

A. Yes; changes in the art may be a cause of obsolescence.

Q. Have you considered the requirements of the public authorities?

A. To the extent that they are applicable.

Q. And the changes in demand upon the Hope Company?

A. To the extent that it is applicable.

Q. Will you define what you term as condition percent in your exhibit?

A. It is the percentage amount—it is 100 percent, less the amount of depreciation as I have defined already
882 expressed as a percentage.

Q. Would this be in essence your test, the percent which the condition of the unit of property in question as it existed when examined, bears to that of a like unit of property of the same size, kind and description, similarly situated, but new, and new is 100 percent?

* * *

The Witness. That would substantially be my test. The question in my mind is as to the meaning of "like." If by "like" you mean identical, that is so.

By Mr. Springer:

Q. You have used the words "percent of depreciation accumulated" in your exhibit.

A. That is right.

Q. Is that the complement of condition percent?

A. That is the difference between 100 percent and the percent condition of the property.

Q. If you added percent of depreciation accumulated and percent condition, you would get 100 percent?

A. That is correct.

Q. How can you arrive at such a thing as a percent of a condition in which property is found?

883 A. By taking into consideration the factors which cause the property to be used up and consumed in the operations of the company.

Q. What instruction did you give the men who inspected the Hope Natural Gas Company's properties?

A. The instructions that were given to the men who inspected pipe lines were to inspect two contiguous 18 inch sections of pipe in test holes that were prepared in advance, measuring and recording in each section the twenty or thirty deepest pits that they could find in each of those sections as to depth, taking special care to clean out the rust and scale that might have accumulated when the pipe was in the ground, and to record other conditions as to surface drainage, ditch drainage, character of soil and other factors that have an effect upon the deterioration of the pipe.

The men inspecting machinery were instructed to determine the extent to which that machinery, the wearable parts of that machinery, had worn out in service. The men inspecting buildings were instructed to record the extent to which the building in its various parts had rotted or deteriorated or otherwise worn out.

As to buildings and equipment, they were also instructed to report any special conditions that to them seemed to require consideration. They were all sent in the field to ascertain
884 facts, which facts were brought into the ffice, correlated and made available for my consideration.

Q. Can two men look at the same piece of property and reach the same conclusion on the condition percent?

A. Substantially so. I have had tests made at various times in that direction and obtained results that were substantially identical.

Q. Did you give your inspectors a form sheet to fill out for the condition in which they found the property? Did you have a base assumed below which percent condition could not go?

A. No. They were asked to record the deterioration in machinery, for instance, those things which wear out in service, all of the things, and when worn out, they were done. The same thing was true of buildings, and it is well illustrated by the fact that reports came back on some buildings, with nothing but scrap value. There was no bottom.

Q. Didn't you have any classification of good condition, very good, or fair condition?

A. Yes. There were definitions under which they worked. They were asked to record as being in excellent condition, for instance, anything which they inspected which, so far as they could see, had not deteriorated at all. Another
885 common condition, they were asked to put in bad condition anything which they saw which was seriously deteriorated and in imminent need of heavy repairs.

There were intermediate conditions between those two, such as good, fair, and poor; in other words, it started out excellent, good, fair, poor, and bad.

When they found conditions that were worse than seriously deteriorated and in need of imminent repair, they reported the thing specially as worse than bad, and in connection with buildings, I noted from viewing the individual inspection sheets, that there were several degrees of badness, worse than the bad.

Q. Do I get the impression then that your men's judgment of condition percent is an estimate of deferred maintenance in the property?

A. No. Deferred maintenance is neglect. Property deteriorates and begins to decay or begins to wear out almost from the beginning, and it is not deferred maintenance until the owner

has failed to correct that depreciation when he should. They have determined the extent to which it had accumulated.

Q. Is it possible to distinguish between what you call deferred maintenance and condition percent?

A. Yes. As I have explained before, deferred mainte-
886 nance is not deferred maintenance until the property should be repaired.

Q. But your men have classified property as badly in need of repair?

A. No. I said badly deteriorated and in imminent need of heavy repair. If a building, for instance, were neglected after that, so that it began to fall into ruin, that would be a result of deferred maintenance, but nevertheless, when the building was ruined, would be completely depreciated.

Q How did these inspectors translate their estimate of condition percent from their minds to your mind, for the preparation of this exhibit?

* * *

Q. Will you explain now the different methods used in determining the condition percent of the major classes of
887 property so that we can start on a common base.

A. Well, take compressor engines, for instance. Those engines are inspected by a man who has been living with compressor stations and their construction and rehabilitation for a number of years.

He has erected and dismantled and repaired engines of the kinds that represent the greater part of the cost of the engines in this property. He knows just what parts of these engines do wear out and which do not wear out, and we ascertained from the manufacturers the extent to which those various parts contribute to the cost.

Now, for instance, the main frame of an engine never wears out and it is never replaced, except as the result of an accident, and it does not depreciate.

The shaft of an engine rarely if ever is replaced because it wears out, and certainly the fly-wheels do not wear out. There are certain parts such as separators between cylinders in which the crosshead runs, and very little of that ever wears out. The pistons, piston rods, parts of the cylinders, parts of the cylinder heads and valves all wear out.

Now, in an engine, roughly speaking, the parts that wear out cost 30 percent of the whole cost of the engine, and the

888 parts that are never replaced except as the result of an accident, and never retired, except as the result of an accident, cost about 70 percent. Those are in round figures.

In conditioning engines, I found that this inspector had carried out his instructions, but that his recording as bad was only for those parts of the engine which were ready to be replaced in toto, so that those parts which were called bad were rated as not quite but almost gone. The parts rated as excellent were rated not at 100 percent, but partly worn; with the overall result that on this property as a whole he found that these parts that wear out in service were not quite half worn out; in other words, the depreciation, the wear and tear in the engines, was something less than fifteen percent of the total cost of the engines.

He determined the wear and tear on the engines as a matter of fact, based on his knowledge of the parts. He took into account the condition of the engines as indicated by the service records, he consulted the chief engineer in the station as to major replacements in expensive parts in recent years. His figures finally conveyed to me the extent to which those parts that wear out had worn out, and that was the starting point with respect to compressor station equipment when I started.

889. I made an addition to the depreciation which he found, the wear and tear, to reflect reasonably the cost of dismantling those parts when they had worn out. Furthermore, I found, I think it was two engines of a type that the Company has been retiring rather than moving to new locations, over the years, which engines I marked down to I believe the figure was 50 percent. The engines are perfectly useful in their present locations, but based on the Company's practice in the past, I concluded that they probably would not be moved to a new location when the other equipment in the station was moved.

I also found that there were certain details in the auxiliary plants; for instance, rather complex methods of driving the pumps and compressors, and electric generators, and so forth, which the Company was gradually displacing with the simpler and more economical drives.

That equipment was heavily marked down to reflect the practice of the Company in the retirement of that property. I also found that there were some engines of another type that this company and its sister companies are modernizing through the retirement of some parts of the engines and the fuel supply piping to these engines, and are gradually replacing with the new

and more modern parts, and the necessary change in the
890 piping to accommodate those engines, and all of such engines were marked down to reflect very heavily the probability that these parts of the engines would be replaced fairly completely in this property, as they have been in some of the other properties.

Q. How much of the property that you have described could be seen?

A. The parts that are retired and replaced can be seen to the extent of probably 90 per cent. Of course, the actual wear, the things that wear out, are concealed, but the things that cause the replacement, for instance, of gas engine cylinders, in the long run, is the accumulation of too many body cracks in the cylinders. These engines gradually crack in service from changes of temperature, and sooner or later the parts of the cylinders are replaced. The practice of the Company in this respect was taken into consideration by this inspector in arriving at the condition.

* * *

891 With respect to the extent to which the property would be seen, I have very definitely in mind in reaching my final conclusions as to the total depreciation accumulated, in the compressor station equipment, that there are sources of depreciation other than those which can be seen, and having that in mind, I increased the depreciation which could be seen from 17 per cent by an additional two per cent which I believe adequately reflects all of the other causes of depreciation in compressor station equipment.

By Mr. Springer:

Q. All causes other than wear and tear, you have given——

A. (Interrupting.) No; wear and tear and those that can be seen. You can see, for instance, that these two engines that I mentioned, that I marked down because the Company had been replacing them, you can see in your inspection of the property that they are becoming obsolescent; you can see from an inspection of the property that this complicated method of driving auxiliaries was being gradually retired and replaced with a simpler one. That is, change in the art or obsolescence.

892 We could also see, and which I failed to mention before, that there is certain compressor equipment in one station, in fact, that is not being used, and that equipment was reduced down to the warehouse value of the equipment, as though it were

carried in the warehouse stock instead of the compressor station operating equipment. All of the cost of the installation has been eliminated, and all of the parts that could not be salvaged were eliminated. Those are things which can be seen by an observation of the property.

The additional 2 per cent was to cover those things which are likely or have been causing retirement of the company's compressor stations in the past—an allowance for a continuation of that in the future, having in mind that there is a very high salvage on this type of equipment, most of which is moved bodily to a new location.

For instance, at the present time a station is being built down at Hunt, from equipment, practically all of which is taken from other stations in the company or its affiliate,—the Reserve Company, which has now been absorbed.

Q. Would you describe in a little more detail the inspection method used to determine the condition percent in compressor station equipment?

A. Each piece of equipment was examined thoroughly
893 and carefully to the extent that it can be examined without dismantling, by a man that is thoroughly familiar with the details of the construction and operating troubles of that equipment.

Q. And you said that thirty per cent of it was wearing parts and seventy percent nonwearing parts?

A. That is right.

Q. Then does it follow that a compressor engine does not depreciate below 70 percent?

A. I have depreciated two of them down to 50 percent, but in general that is so. An engine could have all of its wearing parts completely worn out, in fact moved to a new location, it may be the case, with the wearing parts all replaced, and that engine would be absolutely as good as a new engine, and it would last indefinitely, because the nonwearing parts are not replaced as a result of wear and tear. Nothing but an accident or an explosion or a fire.

The TRIAL EXAMINER. That is without consideration of obsolescence, is it not? You do not mean that that engine would be as efficient as the new engine or modern engines?

The WITNESS. It would be just as efficient as it ever was or as a modern engine of the same type would be. The greater part of

894 this company's engines are National Transit four-cycle engines or Worthington four-cycles, or Westinghouse. Those engines are very much, in fact almost identical with the engines that are built today, and when thoroughly overhauled, as they are when sent to a new location, will operate with substantially the same efficiency as an engine bought today.

Of course, the two-cycle engine, when overhauled, operates just as efficiently as the simple two-cycle engine when bought today. It can be by the replacement of certain parts, improved in efficiency considerably, and it was for that reason that I made provision for the retirement of those parts which had to be replaced in that improvement.

Now, there are other types of four-cycle engines, for instance, the old Snow engines, that they do not make any more, but those engines are just as efficient after a complete overhauling as they were when they were first built. They will never be retired because they are not quite so efficient as the type of four-cycle gas engine which is more common in the company's property. They move it to new locations as circumstances indicate.

By Mr. Springer:

Q. Mr. Rhodes, in what percent condition would a compressor engine be before retirement?

A. You mean before the engine itself is junked?

895 Q. Isn't there a point where maintenance is so great and depreciation is so advanced that it is uneconomical to run an engine or compressor?

A. No; that is not so. Compressor engines never get in that condition unless they are grossly neglected by the operators. You can take an engine that has been grossly neglected by the operator and you can replace the wearing parts and tune it up and it will run just as efficiently as it ever did. The cycle of replacement of these parts that wear out is fairly short in the case of some things. There may be some things, every two or three years, like valves, in certain locations, and maybe cylinders will last twenty or thirty years on the average, but sometimes they last only a few years, but the engines, if properly maintained, do not become increasingly expensive to maintain, as a general thing.

Q. Did you determine the age of every unit of property?

A. No; I was concerned only with its physical condition, because irrespective of its age, it can be restored to perfect condition for a relatively nominal cost. Age has nothing to do with the retirement of gas engines. In the Company's experience here,

the only cause of engines that have ever been retired, as
896 nearly as I can find out, has been either as a result of an accident or of this one type of engine which would be classed as a freak type which has never proved satisfactory in operation, and they are retired only when the question of movement to some other location is involved, and it is decided that it is not worth while to do that. Those are the only engines retired, as far as I have been able to find out, and they represent possibly 1,000 horsepower out of 90,000 odd which the company owns.

Q. When you speak of freak equipment, do you refer to the $30,000 worth of equipment at the Davis station which was reconditioned and then sold for junk?

A. Those engines at the Davis station were of that type; yes. They were very expensive to repair, and very troublesome to repair when they got into trouble.

Q. Will you describe other methods of inspection to determine the condition per cent of compressor station equipment?

A. That covers compressor station equipment in general. Of course, buried pipe lines, for instance, in compressor station yards, are taken to be in substantially the same physical condition as the other pipe lines. The buried pipes, valves and fittings that connect the yard lines to the engines, were placed in
897 the same condition as the engines. They consist of parts that do not wear out, in fact, the only parts that do wear out are the rings and the packings in the valves, but they were placed in the same condition as the engines, and so was the other property which was buried, in connection with the engines, such as the foundations.

Q. Will you please turn to page 19 and 20 of Exhibit 21 and describe the methods of inspection you used in determining the percent condition by the accounts as they are described there, and if you do not have a separate method of inspection, then please describe the ones you did employ.

* * *

The Witness. There were only three basic methods of inspection. All equipment, whether it be engines, compressor cylinders, valves, fittings, regulators, meters, drilling and cleaning equipment or whatnot, all of that type of equipment was inspected by the use of the principles that I have just outlined. The differences between them are really minor differences in that a more thorough inspection would be given of an expensive piece
898 of machinery than of a cheaper piece of machinery.

The second method of inspection relates to structures, and a third method of inspection relates to underground pipe lines.

The gas wells were depleted not by inspection but in proportion to the reduction in useful working pressure.

As to buildings, and buildings at compressor stations, they were inspected at the same time the equipment was inspected, by a man who was a building designer and constructor and who was living with the design and construction and repair of structures for a great many years. He has built structures for me and he has designed structures for me, and he has torn down structures for me. His instructions were, as I have already stated, to record excellent, good, fair, poor and bad, and he reported 45 degrees worse than bad.

I found myself in discussion with him of what his intent was, and again we found that an excellent part of a structure—and he inspected the structures in their various parts—not just looking at a structure, but he inspected the foundations and the framework and the walls and the roof and the floors of the structures—I found that these parts that he had rated as excellent had deteriorated on the average not over 5 percent, and the
899 worst degree of bad was down to junk, so we weighted it—he had about ten degrees of condition—and we weighted those conditions of the various parts of the buildings, or rather, he did, in the proportion as they contributed to the cost of the building, and got a rating for the building.

The building might have had a rating of poor or fair that he arrived at by that method. Then he put together in a similar manner the ratings of all of the buildings in a group, like at a compressor station, and gave me that rating which he translated into a percent deterioration; in other words, it was his opinion as a result of that calculation, that the buildings in that group had deteriorated so many per cent.

Q. Could you tell me the inspection method employed to determine the percent condition of the drilling and cleaning equipment?

Mr. Milde. Are you through with your explanation of the buildings?

The Witness. No; I am not.

The Trial Examiner. Before you go any further, I would like to ask one question. How did he average the grades of his good, bad, and so forth, in order to arrive at a classification
900 of the whole building?

The WITNESS. In buildings, for the purpose of weighting, he just used consecutive numbers. That is all that is necessary, but the effect of it was to rate as excellent, five per cent depreciation, and each one of his successively poorer conditions was ten per cent worse.

The TRIAL EXAMINER. He inspected the foundations, for instance, and he rated that, we will say, as excellent?

The WITNESS. Yes.

The TRIAL EXAMINER. Then he rated the walls, we will say, and he rated them good.

The WITNESS. Yes.

The TRIAL EXAMINER. And the roof he rated fair, or something like that?

The WITNESS. Yes.

The TRIAL EXAMINER. Then how did he get the average for the whole building? Did he reduce it to percentages?

The WITNESS. He did not do that, although he could have done that and he would have had the same answer. If he had carried out his weightings, for instance, by calling the excellent foundation 95 per cent, the good frame 85 percent, and say the fair roof 75 percent, and so forth, he would weight those percentages in proportion as these various parts contributed to the cost,
901 and he would end up then with a weighted average percent. It is easier to work with index numbers, which will give you the exact result—exactly the same result, but in effect that is what was done.

When this man's work was finished, and he had assistants with one or two other men, I spot checked their inspections, and without know what their figures were, or their results were, and those checks came, as I say, substantially to the same answer.

These figures were totaled for all of the buildings in an account, and I was given a statement as to the percent of deterioration he had found in that account. I adjusted that to fairly reflect the cost of abandoning that building or tearing it down or tearing down parts. I adjusted that to reflect buildings, the usefulness of which had ceased.

For instance, in that Davis station that was just mentioned were five engines that had been junked, and I reduced that portion of the building which was of no use, to the scrap that could be obtained from tearing it down.

Incidently, that building will later be used, or soon will be used, for auxiliary equipment to release a present auxiliary building for storage purposes. But there are other buildings, like the Lemley station, for instance. That station is a
902 station in which the equipment had been reduced to its warehouse value. That building has no use except to shelter that equipment which is remaining there pending its need in some other location. That building was reduced to salvage value.

In other cases, wherever we found that there were buildings that we had the reproduction cost new, we reduced those buildings down to salvage value.

In the case of some types of buildings, like small buildings, housing field meters and those buildings can be picked up bodily and moved to a new location when they cease to be used for that particular location—the same is true of meter boxes, but when you are dealing with large buildings of the type most commonly used by the Company, they are torn down, various parts of them are salvaged, and used over again for other structures, in various accounts.

Having thus determined all of the depreciation which could be seen, namely the deterioration of the buildings and the fact that they were not used, I then, realizing that there was depreciation from other causes, more or less intangibly, which could not be seen, I increased the depreciation.

For instance, the gas well structures, the observed depreciation was 40 percent when I corrected it, but I added 4 percent
903 more, and generally throughout these structures, I have decreased the depreciation observed by, in round numbers, one-tenth, to reflect that depreciation which cannot be seen but which is leading and has led in the past to the retirement of the structure from service. That method was applied to all of the structural accounts.

Gas well structures, field measuring and regulating station structures, other production system structures, compressing station structures, transmission system measuring and regulating structures, and other transmission structures and general structures: In every case it started with observation of deterioration on the part of a man skilled in the art of designing, constructing, and taking care of buildings.

484808—42——27

Q. Is it fair to state then that in every case where condition percent of units of property was estimated, that the physical deterioration was the major factor?

A. That is correct.

Q. Will you please describe the method of inspecting drilling and cleaning equipment?

A. The drilling and cleaning equipment was inspected by the men who are using that equipment and not by our men. I rated the equipment at its usefulness to them and then
904 later, after consultation with me rated it down to the extent that it had worn out, reflecting what they had been able to get on the average as salvage. Equipment for which there was no use was reduced to what they were currently obtaining and selling such equipment in salvage value, for partly worn out equipment.

I took that into consideration by some calculations made from a portion of the equipment, for instance, such as bits for drilling. Those bits are six feet long when they are bought, and there is about three feet to wear, or thereabouts, and we had the measurements of a great many of the bits, and I found out what proportion of the useful wearing portion of the bits had been consumed and used that as the test of the reasonableness of the company's inspection of the equipment which they were using.

In the matter of cordage, for instance, like cables, which wear out fairly rapidly, I saw to it that the condition of those things was marked down substantially to half way between new and junk value, because they exist in all conditions, from new cables that have never been used, to cables which will never be used again after they come off the present job. But, as related to the equipment, its wear and tear of the equipment that is being and can be used, and the salvage value of that material which
905 they can and are disposing of as fast as it can be absorbed.

Q. Is there any difference in durability or efficiency of drilling and cleaning equipment? Have there been any advances in the art of manufacturing drilling and cleaning equipment?

A. Yes; but the equipment which the Company now has that might be in that class is practically all of the new type. The particular advances in the drilling and cleaning equipment have been in the use of portable outfits, which the company has thirty or forty of—I forget the exact number—which make it unnecessary to move in and erect a derrick and set up the house for the engine and the belt house, etc. That is required with the old

type of drilling and cleaning equipment, but with the new type, they move a portable outfit up there, and it is in, everything is there that is required to do the job. There have been no particular improvements other than that, and for the purpose of repairs and deepening of wells, which is the company's use for it, the bits that they have are just as effective as though they were made of the more modern steels, which perhaps would be more desirable, if the company itself were going into a heavy drilling program, but for the purposes of repairs, there is nothing better than that which the company now owns.

906 Q. Does the company drill its own wells?

A. Not now. It deepens wells at times, after they have been cleaned out.

Q. Does it have use for what you estimate to be more than a million dollars worth of drilling and cleaning equipment?

A. Well, I examined the principal operations carried on by the company for the past fifteen or twenty years that required the use of drilling and cleaning equipment, and found out the maximum needed at any one time that was likely to be needed, and the company could not get along with less than sixty of such outfits, and probably should have seventy or eighty of such outfits. Well now, the outfit required to clean a well costs just about the same amount as the outfit required to drill a well—somewhere between $12,000 and $15,000, depending upon its type. Eighty of such outfits would cost approximately $1,200,000 and sixty almost $1,000,000. That relates only to those things which they use immediately in cleaning the wells. The company, in addition to that which is actually being used, has different stocks of spare parts and spare material, special tools, and so forth, so I reached the conclusion by that independent study, that the total amount of drilling and cleaning equipment of
907 $1,000,0000 was by no means excessive, and its depreciation to $751,000 fairly represents the extent to which that has worn out, and the extent to which salvage can be had of the equipment that they cease to use.

Q. Did you take into consideration in your condition percent estimate for drilling equipment, the proportion of the cost of such property which has already been charged to the drilling of the wells?

A. I considered only the equipment as it exists, and what it would cost to replace that equipment.

Q. Will you please describe the method of inspection used to determine the condition percent of transportation equipment?

A. We studied the record of automobiles for the last ten or fifteen years, that were retired, to find out when they were bought, when they were retired, how much was paid for them, how much was received for them, how many miles they had traveled before they were finally turned in. We studied the record and found that the company was getting an increasing mileage of its automobiles and trucks before they were turned in, in fact there was a considerable increase, particularly in trucks.

We found out from that trend in increasing mileage, what the mileage fairly was as of December 31, 1938, and
908 the passenger automobiles, for instance—we depreciated them, rather, in the proportion of the mileage that they had had run on the average, at December 31, 1938, which that bore to the total mileage to be expected from the automobiles as of that date, reflecting of course as a minimum the average turn-in-value of the cars.

Q. Didn't you consider the year on the Blue Book rating?

A. We gave no consideration to that. It was based wholly on the company's experience in the retirement of cars and the increase in mileage that they had been getting from cars and trucks, and the actual mileage of the cars and trucks, as of the date taken. In other words, they were depreciated in the proportion as they had used up their mileage possibilities.

Q. Then you did not inspect them in the manner in which you inspected the compressor station equipment?

A. No; they were not inspected. It is a relatively unimportant account. This method of arriving at the depreciation we considered to be a complete determination.

Q. Will you please describe the method of inspection for determining the condition percent of office furniture and equipment?

909 A. That is another minor account. That equipment was all inspected. Each piece of equipment was inspected and rated from the standpoint of physical deterioration. That which was left up in Pittsburgh was conditioned in the condition that the People's Company were willing to take it over, except certain portions, which were described and were considered as junk.

We found that that equipment, by that method of inspecting it, had depreciated 27 percent, which I increased to 30 percent.

to make sure that the amount was adequate to cover all of the depreciation which existed in that furniture. That is a $200,000 account.

Q. Can you tell the percent condition of a table by looking at it?

A. One can estimate the extent to which it has deteriorated; yes. As related to any individual piece of furniture, the estimate is rather rough, but as related to hundreds of pieces of furniture, these roughnesses iron themselves out, so that the over-all figure is reasonably accurate.

Q. You did not determine the age of any of them?

A. It makes no difference, because some of the oldest furniture in the world is the most expensive. Age has
910 nothing to do with it.

Q. Didn't you consider performance ability?

A. Performance has nothing to do with a desk which is physically perfect.

Q. You mean that you would put your feet on an antique desk?

A. No. There are no antique desks in this property.

Q. You just stated that sometimes it increases in value with age, but for utility purposes, useful purposes, that is not so, is it?

A. For useful purposes, a desk is just as useful fifty years old as when it is new, if it has been kept in repair and all of the parts are there, all of the drawers will operate satisfactorily, and it can be kept in that condition, and an inspector can tell from the appearances of furniture and an examination of it, how much of it has depreciated for practical purposes.

Q. Will you please describe the method of inspection to determine the condition percent of the tools and working equipment?

A. Frankly, we did not spend a lot of time on the depreciation of $5,000 worth of tools and work equipment. Some of that is equipment in the nature of special instruments, that are
911 useful for an indefinite length of time, in fact, if they deteriorate much they cannot be used. That $5,000 account, I have depreciated 15 percent.

Q. Will you please describe your method of inspection for determining the condition percent of the communication equipment?

A. The condition percent of the communication equipment was determined from an inspection of about five percent of all of the poles by a telephone man. The condition rating of the

poles, as excellent, good and bad, was rated down to a bad pole being ready for replacement and almost completely depreciated. The wire rated as bad was conditioned as to its approximate salvage value as copper, which is about 40 percent. The fixtures were rated the same as the poles, down to practically zero. The central station equipment, which does not represent a very large proportion, was rated by inspection, having in mind that in non-commercial service, telephone equipment has a long life.

I found, as a result of analyzing those conditions, that physically it was 27 percent depreciated. Realizing that there are some other causes of depreciation than the pure physical, it was increased by me to 32 percent. Following the determina-
912 tion of that depreciation of the equipment, I consulted with engineers of the West Virginia & Potomac Telephone Company, who agreed with me that it was a very reasonable amount of depreciation to find in a property such as would be owned and operated by a natural gas company, where style and commercial sales consideration do not enter into it. It is purely a service equipment.

Q. Did you employ the same man to determine the percent condition of communication equipment as you retained to inventory that equipment?

A. No; it was another man.

Q. Was there an inspection of rights of way?

A. We walked hundreds of miles of right-of-way in determining construction conditions and saw something over 2,000 miles of rights-of-way. The right-of-way itself does not depreciate.

Q. And that is true of natural gas producing lands?

A. In general; yes.

Q. In determining condition percent, did you instruct your men to consider the size of the unit of property?

A. There was no occasion to consider the size of the unit of property.

Q. Did you instruct them to consider strength of the unit of property?

A. Strength of a property does not deteriorate. The
913 strength of a pole at the butt is the dominant feature as to whether or not it is worn out or decayed to the point of almost complete depreciation, but the strength of a pipe does not deteriorate. The strength of a gas engine does not deteriorate. Strength does not enter into it except as it weakens the

thing through deterioration, which is reflected automatically in the physical figures which were brought in to me by the inspectors.

Q. Does the strength of a boiler make any difference in its condition per cent?

A. The strength of a boiler that has been for years passed by the insurance inspector as in perfect condition is not changed. That boiler has not depreciated from deterioration.

Q. Do you know what the average life of a boiler is?

A. The average life of a boiler might be from five years to a hundred years, depending entirely on how it is taken care of. I know that in the common run of boilers, that the insurance companies think of thirty years, but they will insure a boiler forty years old and take the full responsibility for all damage that can occur due to the failure of that boiler, if the boiler is kept up to their requirements on inspection.

Q. Did your inspection of boilers embrace a hydraulic
914 test?

A. No.

Q. Did you consider the elements of the dollars required to restore the item to condition as new?

A. No.

Q. Did you consider its age?

A. In connection with boilers, we did take into account the age of the boilers, in this way—I found that these boilers had various ages, up to fifteen years or so, and which comprised most of them, and that they had been running for years without any evidence of deterioration, as indicated by the reports of the Hartford Boiler Insurance Company inspectors, which is the company which insures those boilers. The inspector for the insurance company makes whatever inspections are necessary to protect his company. He reports defects, and there were no defects reported, and so I reached the conclusion that those boilers had, in spite of their age, only lived half the life, or rather, had only depreciated to half the extent that boilers do on the average, and so I took the figure as used by the insurance company of thirty years, and depreciated that one half to fifteen years.

Q. Did you consider the element of age in determining the condition per cent of the pipe lines?

915 A. Not directly.

Q. Did you consider the element of age in determining the condition percent of the compressor station equipment other than boilers?

A. I did not.

Q. Did you consider the element of age in determining the condition per cent of buildings and structures?

A. No, I considered only the defects of age.

Q. Did you determine the life expectancy of the units of property which you inspected?

A. No; we determined, however, the average extent to which the life expectancy of various retirement units and replaceable parts had been exhausted.

Q. How did you determine that?

A. The same way that you tell whether half of the gasoline in your automobile tank is gone or not. You know whether it is half gone or not without knowing how much the tank holds. I did it in just the same way.

Q. Could you illustrate that with a structure?

A. You cannot illustrate it perfectly. I explained that this inspector of structures rated the parts all the way from substantially perfect to ready to junk, and it was necessary to depend upon his judgment and skill as an expert on buildings,
916 which was done. You cannot measure it as related to a building.

Q. And you could not relate it to a gas engine either, could you?

A. Not readily.

Q. That would be true of all of the property, wouldn't it?

A. No.

Q. What are the exceptions?

A. You can measure it directly as related to pipe lines.

Q. Their life expectancy?

A. No; the ratio to which the various parts of that pipe line have lived their life expectancy without going through the age or the life expectancy, and you can determine the ratio.

Q. I shall read the definition from page 5 of Exhibit 13, which is the Uniform System of Accounts for Gas Utilities prescribed by the Public Service Commission of West Virginia in 1939: "Service value means the difference between the original cost and the net salvage value of the utility plant." Did you give that any consideration in determining the condition per cent of the units of the property?

A. Only to the extent of substituting reproduction cost for original cost, and substituting for the words "net
917 salvage value" the words "net salvage recoverable."

Q. Did you consider the capacity to do the work assigned to the unit, either as compared to a new unit of like type or a new unit of some better type?

A. The capacity of these units to do the work assigned to them has remained unimpaired.

Q. Do you mean that the art of manufacturing natural gas property is stagnant, with no improvements?

A. The improvements in the art of natural gas properties, which have led to these long distance transmission lines, mean nothing as related to a property such as Hope, with its thousands of points of receiving gas, its fifty-odd compressor stations, scattered all over the system, and its 4,000 separate pipe lines. The improvements in the art mean nothing there and will not lead to the retirement of any of the parts of the Hope's property.

Q. The new pipe lines being installed in the United States are so-called high pressure transmission pipe lines, aren't they?

A. Yes.

Q. And Hope's transmission lines from Cornwell station to Hastings, which is 92 miles of 12-inch pipe, capable of operating at a pressure of 1,200 pounds, is a high-pressure line?

918 A. That is right.

Q. Do you believe that the trend in natural gas transmission is to high-pressure lines?

A. Where the gas is to be transported in large volumes for long distances, yes; but it has not and will not lead to the retirement of any of the Hope's property.

Q. Did you consider the element of safety in determining the condition per cent of property?

A. Safety does not enter into it except in boilers, and the boiler inspector of the insurance company will cease to insure the boiler when it is no longer safe, but the boiler is perfectly safe as long as he will insure it. A gas engine thirty years old is just as safe as a gas engine bought yesterday, in fact I am not so sure that it is not safer for a year or two of operation. The pipe lines of this company are just as safe today as they were when they were built. The corrosion of pipe lines does not weaken them.

Q. Do they ever have joint trouble?

A. Surely; joints leak from time to time, and the leaks are fixed and they do not leak any more.

Q. There have never been any fires or explosions due to leakage?

A. Most inconsequential.

919 Q. Then really, your condition percent was based upon observed physical deterioration in the Hope properties, was it?

A. We started with observed physical deterioration. There was added to that all of the effects of obsolescence and things of similar nature which have been and are leading to the retirement of Hope's property, and on top of all of that, there was added an allowance which I deemed sufficient to cover all depreciation of all other kinds, existing in the property. Wells, of course you understand, we are treating purely on the pressure decline basis, to a net salvage value of equipment.

Q. Is your condition percent theory one which finds the Hope Natural Gas Company property, that is, the compressor station equipment, to be in 81 per cent condition on a depreciated reproduction cost of 19 percent throughout the life of that plant, and then indulges in an hypothesis of suffering a final loss to zero during the last stages of service, possibly within a year?

* * *

920 The Witness. No.

By Mr. Springer:

Q. Exactly what happens when, as of December 31, 1938, you find compressor station equipment in 81 percent condition and next year the unit of that property is retired. Does it fall from 81 percent to zero within that period?

A. I know of no unit that is likely to be retired next year or for some years to come.

Q. If it comes within two years, does the condition percent go from 81 percent to zero within two years?

A. No. I said merely that the depreciation existing in the property as a whole is 19 percent—not that the condition of any one piece of property is any percent, but the property as a whole has deteriorated 19 percent from all costs. I do not attempt and it is fruitless to attempt to arrive at an exact condition of depreciation from all causes on any one piece of equipment. It can be applicable to a group of equipment, but not to one piece of it.

Q. You see, Mr. Rhodes, what I cannot see is how you find a piece of property at 81 percent condition this year, and within two or three years it might be replaced, and in that short period of time it goes from 81 percent condition to zero.

921 A. I have not found a piece of property is in 81 percent condition. I found $10,000,000. worth of property, con-

sisting of hundreds and hundreds of items that in the aggregate were in 81 percent condition. That $10,000,000 worth of property is not going to get down to zero percent condition tomorrow or the next day or deteriorate very rapidly at any time.

The Trial Examiner. That is the average condition?

The Witness. That is the average. Some of the compressor stations there, I have made adjustments that would reflect some of them as merely warehouse value of the equipment that is in those stations. Other engines, as I told you, I have marked down to fifty percent, because I thought that they would be retired before they were really worn out.

I made an inclusion in my depreciation to reflect that fact, but I have not set a percent condition, and am not setting a percent condition on anything other than the entire compressor station equipment account.

Q. Pardon me. Didn't you say that you found some property which you considered to be in fifty percent condition?

A. I said I included in my depreciation an amount which was fifty percent of the cost of reproducing that property for the purpose of making the depreciation, which I found
922 sufficiently large to include all of the depreciation from all causes.

Q. Under your theory, the condition percent of the Hope Natural Gas system cannot vary throughout its lifetime from say an average per cent condition of 50 and above, is that so?

A. Oh, probably it will never get as low as 70.

Q. And yet, when one of those units of property which make up the composition of the system is retired, that must be in zero condition?

A. No. It will be retired from one location and installed in another location, and that is what has happened to this equipment in these stations that were no longer useful in the present location.

Q. But if it wears out?

A. But they do not wear out. There are a few units, which I explained, have been junked, because they were of a type which has proved to be an unsatisfactory type, and I marked those down, although they will continue to be used in their present location, for years to come, they are standby or spare equipment that are used under the conditions of extreme peak loads.

This company has not retired compressor station equipment except of the parts that cannot be salvaged when they

923 move the equipment in one station to another location. Some of the underground pipe and some of the small valves and fittings, the foundations, and things of that nature.

Q. Mr. Rhodes, isn't there some unit of property in the Hope system that wears out after it has been used for a period of time and has to be replaced? Which is junked? Doesn't that happen in a natural gas system?

A. The cylinders of the gas engines; yes.

Q. Now, that gas engine you appraise today as being say 50 per cent condition——

A. All right.

The TRIAL EXAMINER. Did he not say it could not depreciate below 70?

The WITNESS. I have stated that I allowed in my total depreciation, 50 percent of the cost of reproducing. I think it was two engines, which were of a type which have not proved satisfactory. I think that is what he is referring to.

The TRIAL EXAMINER. There you are taking into consideration, perhaps, the retirement policy of the company, in addition to the condition of the equipment, are you not?

The WITNESS. That is right, and I also took that into ac-
924 count in conditioning this complicated drive of the compressor station auxilliaries, which I mentioned in conditioning or making allowance in the conditions of the two-cycle gas engines, which the affiliated companies, at least, are modernizing. I am taking into account all of these things which are determinable, and then making an additional allowance to cover the more or less indeterminate things, that cannot be measured or visualized.

Mr. MILDE. I think, Mr. Rhodes, you did say, in connection with some engines, that there were wearable parts involving thirty per cent on them to depreciate?

The WITNESS. Oh, yes. But, on the other hand, an engine of an unsatisfactory type, which would soon be junked, that 70 percent disappears, and that is a move in the direction that I think Mr. Springer is trying to bring out.

Those are the only cases that I found in the whole property where serious consideration needs to be given to the fact that the equipment is likely to actually be retired in part. The equipment is not retired when it is moved from one station to another.

By Mr. Springer:

Q. I am still disturbed about the theory that finds property in a certain per cent condition today, and maybe in two years a unit of that property will be replaced and you drop from a high
925 percentage today to zero in a short period of time.

A. You could scrap any unit of property of this company, and eliminate it from the whole depreciated reproduction cost, and it would not have any material effect on the answer.

Q. Do bed plates for engines depreciate?

A. No; bedplates for engines are never replaced because they are worn out. Occasionally, they may be in an accident, or like a fire—having the same effect as a fire. Things do not depreciate because they may burn up sometime, and for the same reason bed plates do not wear out because sometime you have an accident and have to replace them. As a matter of fact, I do not think the company has ever replaced an engine bed plate in all of its history.

Q. Do you know whether or not it has replaced three engine bed plates at Cox's mill?

A. No; I do not know.

The Trial Examiner. Your theory of depreciation does not make any allowance for such contingencies as that, does it?

The Witness. Except as I am increasing the amount which I concede to cover depreciation from hidden causes. There may be flaws develop in the bed plate of an engine, there may
926 be flaws in fly wheels—fly wheels burst once in a while, but it is just a snare and a delusion to try to place any depreciation on a fly wheel because sometimes fly wheels burst, and bedplates and main shafts are in the same category.

By Mr. Springer:

Q. Will you please turn to page 2 of Exhibit 21. You state that depreciation accumulated in the gas wells was determined from the proportionate decline of the useful rock pressure from the time the well was drilled, to a lower pressure, at which the well may be considered to be exhausted. By what conception of depreciation have you determined that the decline in pressure in a gas well is a measure of accumulated depreciation?

A. That is the exhaustion of the gas well in the operation of the Company, and it is measured proportionately by the decline in rock pressure from the initial pressure to the abandonment pressure.

Q. Why is a decline in the rock pressure the measure of accumulated depreciation in a gas well?

A. Because it is the measure of the extent to which the gas well has been exhausted in service.

Q. Did you consider the amount of gas exhausted or the reduction in the pressure?

A. The two are approximately synonymous, and it is a method of depreciating gas wells which has come into

927 common use and is accepted by the courts as well as by the operators, in the case of many companies.

Q. Do you say that pressure and volume are synonymous?

A. No.

Q. You used decline in rock pressure for your basis here.

A. That is right.

And decline in rock pressure is practically synonymous with the decline in the recoverable quantity of gas in the well.

* * *

928 By Mr. Springer:

Q. Have you adjusted the rock pressure figures based upon the pressure gauges taken in the Fall of 1938 to the date of December 1, 1938, of your exhibit?

A. I conditioned the well to the rock pressure gauges

929 taken in the Fall of 1938, as being fairly reflective of the condition of the wells on December 31, 1938. Any further reduction is not measurable.

Q. There was no appreciable decline in rock pressure between your study date and the date of your exhibit?

A. There is no way to measure it.

* * *

Q. Do you know whether there was withdrawal of gas during those periods?

A. Certainly there was withdrawal of gas.

Q. Then there was a decrease in the gas supply?

A. Yes; if you want to split hairs, there was a decrease in the pressure at the end of December, December 31, 1938, as compared with September.

Q. Your study would not be perfectly accurate for today, would it?

930 A. Well, quite a bit of time had elapsed to today. If I wanted the condition today, I would take the latest rock pressure readings that were available, and determine it on the basis of those readings.

Q. Do you make a distinction between rock pressure decline and decrease of volume of gas supply?

A. They are practically synonymous.

Q. Where a natural gas property is retired, due to the exhaustion of the supply of gas, is the principal cause of the retirement the exhaustion of the pressure of the gas supply or the exhaustion of the volume of the gas supply?

A. The cause of the retirement of a gas well is generally the result of an accident. Gas wells as they approach the average abandonment pressure may have a cave-in or some other accident of that kind, and at the first opportunity a drilling and cleaning outfit goes out to the well and cleans the well out and tests the well. If, after they have cleaned out the well, that well has a satisfactory volume of production, it is restored to service, whether the pressure is above or below the average abandonment pressure. The actual abandonment is determined by whether or not the well can be restored to a useful well. If the well cannot
be restored to a useful well by repair, the well is plugged up
931 and abandoned, whether the rock pressure be higher or
lower than the abandonment pressure.

This matter of abandonment pressure is an average, and individual wells are not properly conditioned by the decline from their initial rock pressure to an average abandonment pressure, but the condition of a group of wells is properly determined by depreciating them from their initial pressure to their average abandonment pressure.

* * *

934 By Mr. Springer:

Q. Mr. Rhodes, did you secure the initial rock pressures and abandonment pressures and the 1938 rock pressure from the Hope Company's geologists for use in your exhibit?

A. That is correct.

Q. If there are any errors in those pressures furnished to you, those would be perpetuated in your exhibit, would they not?

A. They would be reflected in the exhibit; yes.

Q. Will you please refer to your working papers and read into the record your determination of the percent condition of a gas well producing gas from one horizon?

A. It is explained in the text rather completely. We do not specifically determine a percent which I consider to be the percent condition of any one well. We determined percentages that when added together and averaged fairly reflect the percent con-

935 dition of the groups of wells.

Q. Mr. Rhodes, would you please in your example name the well and the sand and the date of drilling and the rock pressure?

A. I will take, for example, well No. 1270, which was drilled in 1909 into the 30-foot sand. The well had an original rock pressure of 860 pounds. The abandoning pressure for that 30 foot sand is 30 pounds, leaving 830 pounds as the useful or workable pressure in the well.

The annual tests of the well made in the Fall of 1938 where the well had been closed in long enough to develop the rock pressure showed that the rock pressure at that date was 230 pounds.

Subtracting 30 pounds abandoning pressure leaves 200 pounds as the remaining workable pressure. The ratio of those 200 pounds remaining workable pressure to the 830 pounds initial or original workable pressure gives 24.10 percent as the percentage condition of that well, or the percentage decline of that well down to the abandonment pressure. If the well happened to be abandoned at the abandoning pressure, then it would represent the exact condition of that well.

Q. Now, will you please give us an example of how you
936 determined the percent condition of a gas well producing gas from two horizons?

A. Well No. 1380 was drilled in 1910 into the fifth sand—please strike that; that is not a good example.

Well No. 2263 was drilled into the Indian sand and into the fifth and Bayard, which are produced as one sand in that well.

The abandoning pressure of both of those sands is 30 pounds per square inch. The initial rock pressure in the Indian sand was 350 pounds, leaving a workable pressure of 320 pounds. The initial pressure of the fifth and Bayard sands was 815 pounds, leaving a workable rock pressure of 785 pounds. In the annual tests in 1938, the Indian sand showed a work pressure of 97 pounds, leaving a remaining workable pressure of 67 pounds.

The fifth and Bayard sands were at 95 pounds pressure, leaving a 65 pound abandonment pressure. The percent decline in workable rock pressure in the Indian sand was the ratio of the 67 pounds to the 320 pounds, namely, 20.94 percent. The ratio of the 65 pounds remaining workable pressure to the 785 pounds original workable pressure of the fifth and Bayard sands
937 shows a decline to 8.28 percent of the workable pressure. The average of these two percentages is 14.61 percent.

which we have taken as the remaining percent of the workable pressure in the well.

Q. Will you please give an example of how you determined the condition percent of a gas well producing from three separate horizons?

A. Well No. 3570 was drilled in 1914. It passed through a number of sands, but these sands were grouped and have been produced as three horizons. The higher group comprised the Indian, the Gantz and the 50-foot sands. The middle horizon comprised the Gordon and the fifth sands. The lowest horizon was the Speechley sand.

The upper horizon, producing from sands with a 30-pound abandonment pressure had a 205 pounds original pressure, a 175-pound workable pressure, a 48-pound 1938 annual test, with an 18-pound workable pressure still to go. There was 10.28 percent of the original workable pressure remaining in that particular group of sands.

Similarly, the middle horizon has 30 pounds abandonment pressure, it had 530 pounds original rock pressure, with a 500-pound workable pressure, and it had an 86-pound 1938 test pressure, with a 56-pound remaining workable pressure. There was 11.20

percent of the original workable pressure still remaining.

938 The lowest horizon, the Speechley sand, has a 100-pound

abandonment pressure. The initial pressure was 1,090.

pounds, leaving 990 pounds as the original workable pressure.

The rock pressure in the 1938 annual test was 161 pounds, leaving a 61-pound remaining workable pressure. This gave 6.16 percent as the remaining portion of the original workable pressure. The average of these three percentages was 9.22 percent, which is the average of the remaining workable pressures in that well.

Q. Now, will you please read into the record an example of how you determined the condition percent of a gas well presently producing from one horizon, but which has in the past produced from another additional horizon, which has been depleted.

A. Well No. 1425 was drilled in 1909. It produced from two horizons, the upper horizon being the Indian and 30-foot sands, which have been exhausted and are taken in 1938 as being in zero condition, there being no more working pressure.

The fifth sand, which is the lower horizon, with a 30-pound abandonment pressure showed an original rock pressure of 855 pounds, with a workable pressure of 825 pounds.

939 The 1938 test showed 300 pounds of work pressure, with a remaining workable pressure of 270 pounds. This remaining workable pressure was 32.73 percent of the original workable pressure. The average of the zero and the 32.73 percent, namely 16.37 percent was taken as the percentage of the remaining workable work pressure in that well.

Q. Mr. Rhodes, are the pressures to which you have referred gauge pressures above atmospheric or absolute pressure?

A. They are gauge pressures above atmospheric measured by the ordinary pressure gauge.

Q. Now, if you will please turn to page 3 of your Exhibit 21, you state that the percent condition of each well was determined as the numerical average of the percent conditions of the sands in that well. Does such a measure give any consideration to the proportionate amounts of gas in the various producing sands?

A. It gives no consideration, but it is practically an impossibility to determine how much gas was actually contained in any of the sands that feed in the well. We found in some instances that wells with many sands, that a sand came in as a producing sand, but blew out very quickly, that sand being one of
940–941 little or no gas in it. That was ignored in the computation, so to that extent we took no account of sands which had so little gas behind them that they blew out quickly.

Q. Let us assume that a gas well has 80 per cent of its gas in one producing sand, and 20 per cent of its gas in another producing sand. If all of the gas containing the 20 per cent has been exhausted, the condition of the well under your method would be in 50 per cent condition, isn't that correct?

* * *

The Witness. The premises are not sufficiently complete to enable me to answer it. How much gas is in the sand that contained the 80 per cent of the gas?

Mr. Springer. I think that is in the question.

By Mr. Springer:

Q. All of the gas is in the 80 per cent producing sand.

A. Under those circumstances, which are impossible to exist in practice except in a well which has been exhausted in one sand and then drilled deeper to another sand, our figures would show fifty per cent for that well, and that is one of the reasons why I say that these per cent conditions which we referred
942 to as individual well per cent conditions, are really not that, but that when you take an average of a lot of wells,

3,300 wells, you will find just as many wells running one way as the other, some with the big sand fairly well exhausted and the small sand with the high pressure, and vice versa, so that, as related to the wells of the whole, this ratio of the rock pressure gives an accurate and the best available information as to the condition of the Company's wells.

Q. If we assume the reverse to be true, and the sand containing the 80 per cent of the gas has been exhausted and 20 per cent still remains in the other sand, then again, under your numerical method, you would find that well in 50 per cent condition?

A. That is right. There would be as many of the one kind of wells as of the other kind.

Q. Now, will you please turn to page 4 of your exhibit. You indicate that you studied 512 wells retired during a ten-year period. What check did you make to determine typical wells and geographical areas of existing wells?

A. I merely took all of the wells that the Company had retired in a ten-year period, and based my figures wholly on the records contained in the Company's books as to the salvage from those wells.

943 Q. But did you relate them to see whether they were typical to existing wells?

A. That is practically an impossibility. 500 wells represents about 200 miles of casing and tubing, and I think that 500 being about one-sixth or thereabouts of the total wells, may reasonably be considered as typical of the present wells. If I had gone back more years than ten years and added more wells than 500, I would have had a larger salvage value.

Q. Did you make that study?

A. Yes.

Q. Why didn't you use it in this exhibit?

A. Because I wanted to use a salvage value which was typical of the most recent of the wells abandoned.

Q. Do you know whether or not the abandoned wells were in one area of the Hope system?

A. I did not check specifically where they were. I know that abandonments currently are taking place pretty much all over the system.

Q. You state that during a ten-year period ending 1938, the Hope Company retired the 512 wells and recoveries amounted to 61.6 per cent of the total book cost. Do you know what the average age of those 512 wells was that they retired?

A. No.

944 Q. Do you know what the physical condition was of the casing and tubing in those wells?

A. No; only some of them. We know the physical condition of most of the seventy wells that were retired—that seventy wells of which we know the physical condition were retired in 1939. I do not know the physical condition of the casings retired from the 512 wells. I considered the condition of the casing retired from the 1939 wells as typical of those of the 500.

Q. Did you determine the physical condition of the tubing and casing that was originally installed in those 500 wells, to ascertain whether it was new or used?

A. There is no way of ascertaining that in practice.

Q. You mean the Company does not know whether it installs bew tubing and casing or uses used tubing and casing?

A. Yes; the Company knows at the time, but records are not kept whereby it could conveniently be determined, and as I saw it, it had no part in the picture whatsoever.

Q. You do not know the relationship between the amount of new tubing and casing and used tubing and casing that went into the 512 wells originally?

A. No; except that the company's casing and tubing which it puts into the wells, in most cases, was originally purchased

945 by it as new tubing and casing. It might have been in another well before it went into this well, the exception being where the wells themselves have been purchased from some other company.

Q. Do you know the average age of the Company's casing and tubing in the Company's existing wells?

A. I do not.

Q. Do you know that the Company's wells in the aggregate have an average age of about 25 years?

A. I think that is approximately correct.

Q. Have you made a study of the Company's records with regard to the average price per ton that they have received for well equipment sold as junk or otherwise?

A. No. I was concerned with their records merely with the amount of money that they received from the sale of all materials that they recovered from wells, that they did not think was suitable to use again.

Q. Do you know that at the time that a well is abandoned by the Hope Company, that the casing and tubing that is recovered

for sale as junk has a price placed on it of one half a cent per pound or $10.00 a ton, pending the sale of that pipe?

A. I do not recall how they do it. I merely know that the records show year by year that they received from salvaged material, junked, a certain amount of money. Corrections
946 are made from time to time for any discrepancies as between what might have been accrued and what might have been received, so that over a period of years, any over or under accruals as to the price on junk is entirely wiped out for all practical purposes.

Q. Do you know what price per ton the Company received for casing and tubing sold as junk?

A. No.

Q. Do you know what became of the equipment that you described as being sold otherwise, on page 4?

A. No.

Q. On page 4 you state that 38.4 per cent of the original cost of well equipment was either left in the wells or sold for junk. Can you state the percent of original cost that was abandoned or left in the well?

A. I don't know it.

Q. You don't know whether it was 5 per cent or 10 per cent?

A. I do not.

Q. What per cent of the total book cost of the casing and tubing recovered was sold as junk?

A. I don't know.

Q. Could you give us the book cost per ton for the casing and tubing when it was installed in those 512 wells
947 that you analyzed?

A. I don't know it now. The books will doubtless disclose it.

Q. Is it about $70.00 a ton?

A. I don't know. I have given no thought to it.

Q. In connection with your study of the salvaging of these 512 wells, did you determine whether the book cost for casing and tubing equipment approximated the original cost for new materials, or whether they represented a depreciated cost when used materials were installed in the wells?

A. I made no investigation. I concerned myself merely with the company's records as related to the 512 wells most recently abandoned.

Q. You further state on page 4 that the Company was able to recoup 11 percent of the total book cost of all of the equipment by selling tubing and casing as junk, isn't that so?

A. No; I say "or otherwise." In some cases, tubing and casing is sold that other people use rather than sold as junk.

Q. On page 4, you state that 38.4 percent of well equipment was either abandoned in wells or sold as junk?

A. No; I say "or otherwise."

Q. And from that 38.4 percent, your study indicated
948 that 11 percent of the total book cost of all equipment originally in the well was recovered?

A. Of that part; yes.

Q. If no casing and tubing were left in the hole, but it was all recovered and sold, what is the indicated percent of gross salvage value for this material, according to your figures?

A. About 25 percent.

Q. Do you know how much per ton?

A. No.

Q. Then you said, following your method of determining salvage value of casing and tubing, if only 11 percent of the well equipment out of the 38.4 percent was recovered for sale as junk, the effect would be realizing 100 percent of the book cost on property sold as junk?

A. That is mere arithmetic and apparently correct.

Q. Well, errors are not made in arithmetic?

A. No; but some of the equipment recovered from the wells is sold for purposes other than junk.

Q. Do you know how much, and for what purpose?

A. No; I have no records in detail.

Q. Mr. Rhodes, will you please assume that 38.4 percent of the equipment was recovered and sold for junk or other-
949 wise, and assume that you would receive 11 percent of the book value for this junk, how much would this be per ton?

* * *

The Witness. Nobody can answer that question.

By Mr. Springer:

Q. If we change the last word "junk" to "material" it is possible to determine that, is it not?

A. No.

Q. Would it not be possible to determine the price per ton received for the material sold?

A. If you knew the book cost, but I do not know the book cost.

Q. I gave you the book cost at $70.00 a ton.

A. I don't know whether that is right or not, because this junk,
so-called, that you assume to be junk, which is not junk,
950 includes valves and fittings, which cost very much more per
ton than casing and tubing.

Q. Are valves and fittings a large portion of the total of material?

A. Not a very large portion, but nevertheless they enter into the question, and when those things are sold they can be sold at a higher price per ton than junk casing and tubing.

Q. Is it customary to throw that, the valves and fittings in the same pile with casing and tubing when sold as junk?

A. Sometimes. I say the sales are made otherwise than for junk.

Q. Is it not true, Mr. Rhodes, that your junk credit here to well equipment, if excessive, would be in effect placing this property in an artifically higher percent condition?

A. That is purely an assumption. I think if the Company's records of the most recent 500 wells abandoned is the best evidence in the world of the salvage to be taken. I might have gone back and taken 1,500 wells which might be considered as better evidence, and then I would have had a higher salvage value, but it still would be a correct record of the 1,500 wells. I tried to show and to use the lowest salvage value justified by
the Company's records, without attempting to theorize as
951 to about how much this junk might weigh and what it
might be, but I don't know what it might be and how much
I might get for it.

I am basing this absolutely on the records of the Company for the period which gives the lowest salvage value, and then I inspected the material recovered to find out whether or not the material went into the warehouse at a value equal to its book cost or some other value.

Q. Do you mean to give the impression that in future the salvage value of abandoned wells will be less?

A. I think it might reasonably be expected to continue at the level of the most recent period.

Q. On page 4, you state that you inspected equipment recovered from 70 wells abandoned during 1939, to determine the condition of the casing and tubing at retirement. What percentage of book cost was recovered from these wells?

A. I did not investigate.

Q. Do you know how much was junked?

A. No; I was concerned only with that material that went back to the warehouse as useful material.

Q. And you do not know the average age of the casing and tubing of those 70 wells either?

A. No; it could not be determined.

Q. It could not be determined?

952 A. No; because the Company uses its casing and tubing over and over again. Sometimes in the cleaning out of a well the casing and tubing is removed, and parts of it are put in new, parts of it may be put in with used casing and tubing, and there are any number of conditions that exist so that it is practically an impossibility to determine the actual age of the material removed from any well.

Q. Is that because of the lack of records?

A. Presumably so, yes; but the Company is not concerned with matters of that kind in its operations. It does not need to know, and there may be records existing, but I rather doubt it.

The TRIAL EXAMINER. Why would they put in new casing or tubing in a case like that?

The WITNESS. I don't know that they do, but they might, under certain circumstances. If they had a well which they pulled, in which most of the casing and tubing is in very excellent condition, and some parts of it are badly corroded out, they might well feel that in those locations where corrosion is very severe, they might want to put in a new casing and tubing when they put in the new equipment in the well.

The TRIAL EXAMINER. They would not save that, then, and and put it in somewhere else? The casing and tubing
953 that they had taken out?

The WITNESS. In general, they put back the casing and tubing that they take out of a well, but parts of it they do not put back because it is corroded or otherwise damaged in getting it out of the well. I merely pointed out in reply to your question that they might put in new material in places where the corrosion was very bad and in other cases it would be perfectly satisfactory to replace the damaged casing with casing out of the used casing stock.

By Mr. SPRINGER:

Q. Would the age of the casing and tubing have a direct bearing on the amount of the depreciation?

A. A rather indirect bearing as related to the casing and tubing restored to the warehouse.

Q. I mean, in the determination of the condition percent of the casing and tubing in existing wells, does the age of that bearing on the amount of the depreciation?

A. I would not say that it had, but there would be no way of finding out what the condition of the casing and tubing is in any well without pulling it out at a cost of $1,000 or so. It is a thing that cannot be determined; therefore, as I say, it is hypothetical.

954 Q. That you would say that physical deterioration which is visible from the casing or tubing that has been removed from the wells is your test of condition percent, regardless of the age of that casing or tubing or casing and tubing in existing wells?

A. It is my determination that the percent condition of that part of the casing and tubing removed which they put back into the warehouse.

Q. You do not give any consideration as to age?

A. It does not enter into the problem at all. A piece of casing that is practically as good as new, it does not make any difference whether it is two years old or forty years old. It is a perfectly good piece of casing or tubing. Age does not make any difference.

Q. You have taken the condition obtaining from an inspection of the equipment taken from 70 wells, and have extended this to 3,300 wells now owned by the Company, is that correct?

A. That is correct.

Q. Have you prepared an estimate of how old these 3,300 wells will be when they are abandoned?

A. No; I have made no attempt to do that.

955 Q. On page 4 you state that the recovered casing and tubing from 70 wells was depreciated by corrosion not more than ten percent, and that an additional 2 percent of depreciation covers the loss through damage to threads, and so forth. Is that a determination of 88 percent condition for well equipment?

A. No.

Q. How do you reconcile those figures?

A. That is the determination of an 88 percent condition for that part of the well equipment which went back into the warehouse for re-use by the Company.

Q. Have you used that 88 percent condition for recovered well equipment throughout your exhibit 21?

A. I have applied it to the 61.6 percent recovery that went to the warehouse for re-use and determined the depreciated cost of the wells on that basis.

Q. Do you say that the recoverable equipment from wells will be in 88 percent condition, regardless of age?

A. Yes.

Q. On page 4, you explain in detail your method of placing salvaged casing and tubing conditioning on this equipment of 90 percent.

A. That was determined in exactly the same way that the condition percent on the underground pipe was determined. The explanation, if it is to be made in detail, should be made for all pipe as given, and equally applicable to all pipe.

956 Q. Do you have those working papers in convenient form?

A. The working papers are here and they are not in such form as would be reasonably possible to read into the record the method of determining the percent condition.

Q. Would it be possible to have them prepared as a supplementary exhibit? They are not relatively voluminous, are they?

A. To place them into condition so that they could be understood by the layman would be a rather difficult task, because they involve the use of mathematical equations which are quite complex in determining the ratio of elapsed age to the age expectancy of that particular material. To calculate the thing practically, involves the use of logarithms and X potential equations, and I do not know how to write that so that it could be understood by the nonmathematical layman.

Q. We would like to have that put in as a supplementary exhibit, and we will work it out.

A. I don't think it can be done so that it will be at all understandable to the Commission or to anybody else.

Mr. Springer. I believe that the Commission is entitled to know the computations behind the conclusions in this exhibit and
957 the supporting detail, and I am sure that the Commission has experts on its staff who can fathom the working papers, and it is vitally important that we have that information so that the statements in this exhibit will have meaning.

* * *

962 Q. Will you please state, Mr. Rhodes, whether or not your method of determining depreciation of property is by major pit depths on the outside?

A. Basically; yes.

Q. Did you consider the pitting on the interior of casing and tubing in making your estimate?

A. No. It is not an important factor in the depreciation of casing and tubing.

Q. Is there not a water condition present in casings and tubings?

A. The casing is to keep the water out. It is exposed on the outside.

Q. There is not any water that gets inside, either casing or tubing?

A. By accident; yes.

Q. Have you taken into account the probability of deeper pits occurring in a joint of pipe beyond those tabulated by your inspectors?

A. I have taken into account the probability of deeper pits in various lengths of pipe.

Q. Between the points of inspection?

A. Yes.

963 Q. How did you make that adjustment?

A. I made the adjustment by the use of a form of equation that has been promulgated by the United States Bureau of Standards.

Q. And you employed that in your working papers?

A. One form of those equations was used in this determination.

Q. Could you give us the official designation of that Bureau of Standards work?

A. It was contained in the United States Department of Commerce National Bureau of Standards Research, paper No. R. P. 1171, entitled "Engineering Significance of National Bureau of Standards Soil Corrosion Data, by Kirk H. Logan."

Q. Do you know, Mr. Rhodes, that some of the tubing and casing which you mentioned here, and which was inspected by your men at the Federal Power Commission's engineers' request, that there were holes entirely through the pipe?

A. I do not doubt it.

Q. On page 4, have you used your gross salvage figure of 65.2 per cent on all of the wells now owned by the company?

A. I have used it to the aggregate cost of all of the equipment in all of the wells in the total, not individually.

Q. Now, will you please turn to page 5 of your Exhibit.

964 You state that in arriving at the cost of abandoned wells, you have studied the cost of 286 wells. Why didn't you use the 512 wells on which you made the study of equipment recovered?

A. Because of the amount of work required to extract from the company's records, the information, and the variations in this cost from year to year is very small, and the three or four years record which we have, I deemed to be adequate as the measure of the cost of abandoning the wells.

Q. Are these 286 wells typical of the present existing wells owned by the Company?

A. I considered them so to be.

Q. What kind of check did you make to determine that?

A. The fact that the cost of abandoning wells varies very little from year to year, and the kind of well has comparatively little to do with it. The costs are largely fixed by the fact that you have to move in there. A large part of the money is spent in getting in there to do the work, and the actual work itself does not represent so much.

Q. You did not check the location and depth and characteristics of those wells?

A. No; I merely took the Company's most recent experience in the abondonment of wells.

Q. Could you state the conditions which were considered

965 as to the abandonment of wells?

A. Wells are abandoned almost entirely by following a program which I will now outline. The well, because of its operation, gets into trouble and needs repair. The need of repair may be due to caving rock or water or leak in the casing or what not, but commonly the indicated need of repair is the failure of the well to produce gas notwithstanding the fact that it has a considerable rock pressure.

When a well gets into that condition, as some two or three hundred do per year, the company moves in generally with a portable well-cleaning outfit and goes to work on the well and cleans it out.

It has to pull the casing and tubing, and it has to break up and remove all of the debris in the bottom of the well. It cleans it out.

Sometimes they even shoot with dynamite or nitroglycerin in an attempt to clean it out.

If the well is successfully cleaned out so that it will continue to produce gas in the future, the well is restored to service. If the well, after being cleaned out and repaired, is not a successful producer any more, it may be abandoned or it may be drilled deeper to a new sand, but the cause of abandonment in any case is the final determination that the well will not produce any more gas.

966 Q. Could you state the conditions which tend to increase the abandonment costs?

A. Accidents in operation are the most prolific cause of higher costs, and the fair proportion of which is represented in these two hundred and eighty-six wells.

Q. The depth of the well would contribute to the abandonment cost?

A. Comparatively little.

Q. The geographical location?

A. As it affects the difficulty in getting in, only.

Q. On page 5 you have determined that the average cost of abandonment of the 286 wells was $898. You have also stated that this amounts to 27.2 per cent of the reproduction cost new of the well equipment. Is that 27.2 per cent on a per well basis, regardless of quantity and value of the equipment in the well?

A. That 27.2 per cent is the ratio of $898 to the average reproduction cost new of the well equipment per well.

Q. This cost of abandonment is expressed as a per cent of the reproduction cost new of the well equipment?

A. That is correct.

Q. This 27.2 per cent of the reproduction cost new of well equipment is then deducted from 65.2 per cent of the

967 book cost to produce the 38 per cent which you have used as the net salvage value of well equipment?

A. No; it is not.

Q. Will you explain how you made that computation?

A. The 27.2 per cent is subtracted from 65.2 per cent to get the 38 per cent. We are talking in terms of reproduction cost, not of book cost.

Q. That is just what I said, Mr. Rhodes.

A. I thought you said book cost.

Q. You have used 27.2 per cent based on reproduction cost and 65.2 per cent of book cost?

A. The 65.2 per cent was arrived at by a study of book costs, but in determining the net salvage, I subtracted the 27.2 per cent abandonment cost in terms of reproduction cost from 65.2 per cent salvage in terms of reproduction cost.

With the percentages of book cost in the numerators and the denominator of the fraction, it wipes out.

Q. You have not used original cost percentages and original cost new percentages in this calculation?

A. The percentage of 65.2 per cent was arrived at by a study of book costs but dollars salvage was in book cost in the numerator and the dollars of book cost of all of the equipment is in the denominator, and when you divide one by the other, the
968 book costs disappear. If the dollar salvage had been expressed in reproduction cost and if the total cost had been expressed in reproduction cost, it had exactly the same salvage percentage.

Q. Will you please divide the $898 which appears on page 5 of your exhibit, into the book cost instead of the reproduction cost and give us the per cent?

A. I do not have the book cost of these wells.

Q. Do you think that the answer would be 27.2 per cent?

A. I don't know what it would be, but the $898 is the current cost of abandoning wells, and the reproduction cost new is the current cost of equipping the wells. The ratio of those two is properly made. Some other ratio may or may not be applicable.

Q. Have you been consistent in using reproduction new percentages and original cost percentages?

A. I have consistently used the percentages set forth in this exhibit in determining the condition of the wells.

Q. And if this 27.2 per cent is increased to say 40 per cent, the total depreciation would be correspondingly greater, would it not?

A. Yes; the salvage value being less, the total amount of depreciation arrived at through depletion would be greater.

Q. You state that when a well is fully depleted, the loss in equipment is only 62 per cent of the total equipment
969 cost. Is that the maximum depreciation?

A. That is the whole depreciation that takes place in the well equipment itself on the average as related to all of the Company's wells. Individual wells may have quite different ratios.

Q. Could you explain how you arrived at the 57.4 per cent condition for the gas well equipment?

A. The result is most easily and simply explained as follows:

The total depreciation in gas well construction, which is the labor of installing the equipment and drilling the well, is the depreciation down to zero—68.7 per cent.

The gas well equipment, however, only depreciates 62 per cent down to the time when it is removed, and therefore the total percentage depreciation in gas well equipment is 62 per cent of the total depreciation in gas well construction. This gives 42.6 per cent as the aggregate percentage of depreciation in the gas well equipment due to depletion. The corresponding condition is 100 per cent less this figure, or 57.4 per cent.

Q. Mr. Rhodes, you have determined the accumulated depreciation in gas well equipment as being in the same proportion and determinable upon the same basis as well construction.

970 A. It is determined on the same basis, yes; but it recognizes 38 percent net salvage as compared to the zero salvage in the determination of the drilling of the well.

Q. Does your determination of accumulation of depreciation of gas well equipment give any consideration to the age of the gas well equipment?

A. No.

Q. Mr. Rhodes, did you give any consideration to service capacity in determining the present condition of the Hope property, especially pipe lines and compressor stations?

A. What do you mean by "service capacity"? That has no real meaning to an engineer.

Q. Service capacity is defined as "the total output of the utility plant realizable during its service life; measured in uniform units of measure, either in number of years of service, number of working operations performed or other production factors, as appropriate. A unit of property may possess more than one capacity for service, and the capacities may be reflected in more than one unit measure. The evaluated composite of those abilities controlling the service life of the property then reflect its total service capacity."

You did not consider that, did you?

* * *

971 By Mr. Springer:

Q. If a pipe line originally carried 15 wells and now carries 3—the same size—has it experienced any loss of service capacity?

A. No.

Q. Why?

A. Because it is still needed to carry the output of the three wells, and in the production of gas, particularly in fields where the field pressure is low, large pipes are very desirable.

Q. Did you use the group plan in computing percent conditions?

A. I computed percent condition from a practical engineering standpoint and not from the standpoint of the accountant, which is nothing more or less than amortization.

Q. I believe that you did in your study group pipe lines in your determination of condition percent?

A. Yes, I did. But the term "group plan" as used by accountants, is a plan for amortizing investments. Naturally I determined the condition of these wells as a group—not individ-
972 ually. The condition of the pipe lines as a group; the condition of the equipment as a group; and I used the group plan to that extent, but not in amortization.

Q. Mr. Rhodes, to inquire about the percent condition of certain property, will you please refer to Exhibit 16, Part C, page 9. In your inventory of tubing and casing by districts, you have listed line pipe. What is the function of the three-inch pipe which is listed as the line pipe, and can you from your working papers tell what price was applied to this particular pipe?

* * *

The Witness. As to the first question, I have not investigated the specific function of the large list of sizes of tubing and casing and line pipe. Out of several millions of feet of casing and tubing, there is 7,665 feet of three-inch line pipe scattered over the property. As to the pricing of it——

By Mr. Springer:

Q. (Interrupting.) That is junked, isn't it, Mr. Rhodes?

A. No. It may be a drip or a separator or a drain to
973 get water away from the well, or a cistern in cases where the oil is being produced.

Q. Will you refer to the operating districts, and is it not true that thirty to fifty percent of the Hope Company's wells are cased with $6\frac{5}{8}$th and $5\frac{3}{16}$th-inch casing?

A. There are so many pages of this, that I would not want to express any opinion as to what proportions are cased with one or the other, but page 9 shows the exact footage of all of the different sizes, showing that $6\frac{5}{8}$ casing is the predominant size.

Q. Why is it necessary to have both of these casings, $6\frac{5}{8}$ and $5\frac{3}{16}$ inch, in these wells?

A. In some cases, there is production between the two. In some cases the $6\frac{5}{8}$ inch may extend down to a certain depth as necessary in drilling that well, and it had to be left there, and after drilling by there, the $5\frac{3}{16}$th inch would be continued to the bottom. There are so many different possible causes of there being two lines of casing in a well that it would be futile to attempt, with respect to any well, to say what it was in there for, without an investigation and consultation with the operating department.

Q. Mr. Rhodes is it practical to produce gas through the space between a $6\frac{5}{8}$ and $5\frac{3}{16}$ inch casing?

974 A. It could be, but——

Q. (Interrupting.) What is the clearance?

A. It does not take much clearance to pass small amounts of gas produced by wells in this country.

Q. The clearance of about an eighth or a quarter of an inch would not be practical?

A. It could produce gas; yes. It is not a considerable area, but it is not necessarily installed for that purpose, as I explained before. Wells are drilled and cased with a large casing down to a certain stratum, and then a smaller casing continues down.

Q. Are there other reasons, such as that the $5\frac{3}{16}$-inch casing is sometimes used as liner pipe for the $6\frac{5}{8}$ inch casing which has deteriorated to the extent that its usefulness as a producing string has vanished?

A. Yes. In those cases, however, we have not included the string that is useless.

Q. This dual casing arrangement occurs mostly in the older wells, does it not?

A. Yes; it is more likely to occur in the older wells.

Q. Now, Mr. Rhodes, will you please turn to page 5 of your exhibit 21 at the topic of the depreciation accumulated in pipe lines. Did you use the inspection reports on pipe corrosion

975 made for the 1931 East Ohio-Cleveland case?

A. No.

Q. You did not rely on that at all?

A. No.

Q. On page 6, is it true that the geographic spacing of points of inspection of the new pipe lines constructed since 1931 were chosen at reproduction cost new, $20,000 intervals corresponding to those used in the 1931 inspection. That is correct, is it not?

A. These intervals of a given size were the same as the intervals of cost of $20,000 in the earlier locations.

Q. Is it true that the geographic spacing of points of inspection of the old pipe lines constructed before 1931, were egosen as reproduction cost new dollar intervals corresponding to about three or four times those used in the 1931 inspections?

A. Along the long, large lines in which we were most interested, every third one of the 1931 locations was taken, so that in general they were separated at $60,000. intervals in terms of the old approximate figures.

Q. And does not your sampling method result in inspection density on the new pipe lines three to four times that of the old pipe lines?

976 A. That is correct, but in determining the overall picture of relative density of inspections, that is properly allowed for by weighting.

Q. How did you weight them?

A. We weighted them in proportion to the spacing, in other words, those inspections that represented four spaces were given a weight of four, those that represented three spaces were given a weight of three, and those that represented one space were given a weight of one.

Q. That is in your working papers also, isn't it?

A. Yes; that is the working papers.

Q. And you gave no consideration to the age of the pipe?

A. Consideration of the age of the pipe in the principal trunk lines where the age was definitely known was given in determining certain of the factors that enter into these equations which I have previously mentioned.

Q. When you summarized your calculations on pit depths in the pipe lines at the various locations, were the averages you developed for the system as a whole arithematically determined, or did you state that they were weighted?

* * *

977 The Witness. The averages of the pit depths were summarized by sizes of pipe first and in making that summary the relative weights of inspections as to spacing, were reflected in arriving at the average pit depths representative, let us say, of 6-inch pipe or 8-inch pipe or 10-inch pipe. Then the contribution of each of the sizes of pipe to depreciation was determined and the overall picture was determined by weighting the contributions of the different sizes of pipe proportionately to the number of inspections on that size of pipe, so the averages were determined throughout by weighting.

Q. Did you make any attempt to determine the age of the pipe which you inspected?

A. Only as previously explained.

Q. Did you make any attempt to determine whether the pipe you inspected was pipe installed originally in that line or as replacement pipe?

A. Such an investigation was made in connection with the inspections of the principal pipe lines which were used for the purposes of determining the constants or certain of the constants in the equation.

Q. Did you make any attempt to determine whether the pipe which you inspected was new pipe or whether it was used or second hand pipe when it was installed at the location which you inspected?

978 A. Only as related to the inspection on the major lines.

Q. If you will please refer to page 7 of your Exhibit 21. Will you describe how you measured the depth of the pits in the pipe inspected?

A. The pipe that was uncovered in the inspection pits was thoroughly cleaned of all rust, scale and so forth, for a distance or length of about four feet. The two center eighteen-inch sections of this cleaned section of the pipe were separately inspected. The determination of the depths of the pits was measured by a depth guage in common use for such purpose, but before the depths were measured, special care was exercised to clean the pits out thoroughly at the bottom, thus insuring a full measurement of depths. Approximately thirty pits were measured on each eighteen inch section, which were the thirty deepest pits that could be found by the inspector.

Q. Is it true that the surface of the pipe is sometimes corroded to such an extent that the original surface has vanished?

A. Very rarely.

Q. If it did occur, how did you measure the pit depths?

A. It occurs so rarely that it needs to be given no consideration. In general, the corrosion on this pipe is the result of an action which in corroding the pits, protects from

979 corrosion the surfaces that are not determining pits, so that it would be an unusual condition where the original surface of the pipe had disappeared, particularly in a case where the corrosion was bad and the pits were deep.

Q. But in such a case, would your method of measurement indicate the depth to which corrosion has penetrated below the

adjacent corroded surface, rather than the depth of the pit below the original surface which has vanished?

A. If there were no original surfaces, the measurements had to be made from such surface as there was, but the original surface was used, wherever it could be found and which is, I say, the common experience with the inspection of corroded pipe.

Q. What study did you make of soil conditions affecting pipe line corrosion?

A. We based our facts on the corrosion itself, as the best indication of the character of the soil. We made a great many observations as to conditions which might cause corrosion, which are used merely for the purpose of determining discrepancies and things of that nature, but the pipe itself, in the condition it is, is the best indication of the character of the soil as affecting corrosion.

Q. In arriving at your conclusions, did you give effect to the previous observations in the Cleveland case?

980 A. No; I paid no attention to that.

Q. Have you made any tests showing the acidity of the soil as affecting pipe lines?

A. No.

Q. What effect have you given to annual rainfall, ground temperatures and rugged topography of West Virginia, affecting depreciation of pipe lines?

A. All of the effects they had upon the pipe.

Q. Through what?

A. Corrosion.

Q. Through visual inspection?

A. No; through an extensive sampling of the five or six hundred test holes.

Q. Within a short period of time within which your inspections were made?

A. Yes. But the corrosion we inspected was of the pipe which had been subjected to the soil conditions, the weather conditions, the temperature, rainfall, and so forth.

Q. That is, assuming that your sampling method was all right?

A. The sampling method was adequate.

Q. Is it true that the presence of ground water or soil moisture contributes much to the external corrosion of pipe lines?

981 A. That is one of the things that contributes to corrosion; yes.

Q. You did not make any study of the extent that bacteria has contributed to corrosion?

A. I made no study of bacteria.

Q. Page 8 of Exhibit 21, please. You state that the rate of corrosion has been found to fall off with age?

A. Yes; that is the universal experience in corrosion.

Q. Would you say that where corrosion is being caused by electrolysis, that it increases with age?

A. We have no electrolysis as an important factor in these lines, and I doubt if it appears at all, but as a fact that is true, because even in the cities, the electric cars which cause electrolysis, have practically disappeared, so it is also true as related to electrolysis.

Q. Have you made a study to determine whether the Hope system has been subjected to electrolysis?

A. It obviously has not been subjected to electrolysis, being pipe lines out in the country, far removed from any trolleys, with the exception of a very small portion of the lines, between here and Weston.

Q. Do high-tension transmission lines affect pipe lines?

A. Not in the least.

982 Q. Is that so?

A. That is so.

Q. But assuming that electrolysis has attacked a pipe line, is it not a constant that does decrease with time?

A. That depends upon the electrolysis, but in this Company's property, the corrosion does fall off definitely with age. The inspection of the pipe line proves it beyond a shadow of a doubt.

Q. Did you take into consideration any interior corrosion in pipe lines in your determination of their condition per cent?

A. Interior corrosion is practically non-existent in pipe lines in this territory.

Q. Does sulphur-bearing gas produce interior corrosion of pipe lines?

A. Under some conditions.

Q. Do you know that sulphur-bearing gas has been produced in West Virginia?

A. It has been produced, yes; but it does not go into this company's pipe lines.

Q. But do you know that sulphur-bearing gas was transmitted in the Hope Natural Gas Company's pipe lines before its effect was detected and eliminated by treatment?

A. Oh, for a short time, but the action of sulphur
983 requires years to create any corrosion that you could even find.

Q. On page 8, when you state that the rate of corrosion decreases with time, have you used that retarding curve in arriving at your conclusion?

A. I have.

Q. On the per cent condition of the well casing and tubing and pipe line pipe?

A. I have used the same degre of retardation, which degree, as I have used it, is a lesser retardation than is actually experienced by the company, thus producing a calculated depreciation greater than would be the result if I had used exactly the company's experience.

Q. Is the development of that in convenient form in your working papers?

A. I don't recall what form that is in in the working papers. The rate of retardation which I have used here has been used by me because it is from the standpoint of depreciation the rate of retardation giving the highest depreciation which has been found on any of the soils east of the Mississippi by the Bureau of Standards in its tests. I was greatly concerned to find out whether or not this company's pipe lines retarded in corrosion more than that convenient rate which I have used. If it is not in
984 the working papers, the data is there from which it could be readily obtained.

Q. As an example, will you take 6⅝-inch casing having an original wall thickness of 250 mills; by inspection it was found that the average of the deepest pits were 125 mills, and the average of the ten deepest pits were 115 mills. Will you please give the per cent condition that you would place on this pipe?

A. That calculation cannot be made on the witness stand, and furthermore you have not given me all of the data that is required to make the calculation.

Q. What else would you require?

A. I am asking you. You are asking me to solve the problem.

Q. Under your theory of retarding curve, even if penetration is 50 per cent through the pipe wall, you will find a per cent condition much greater, possibly 80 per cent, wouldn't you?

* * *

The Witness. You are not giving me all of the infor-
985 mation that is required to make such a calculation, and even if I had made the calculation, that, by itself, would be only one of the things that I would take into account in arriving at the final figure as to depreciation.

By Mr. Springer:

Q. What other conditions would you like us to assume? We will work with you and help you solve the problem.

A. This calculation—if you will give me all of the conditions of the calculation, I will be glad to have it made up, but it would take at least half an hour to make out simply the calculation and assemble the necessary data.

The Trial Examiner. What are the necessary elements of such a calculation?

The Witness. First of all, he must tell me in how long a section these pits are found. Is it two feet or eighteen inches or twenty feet or what?

By Mr. Springer:

Q. Pit observation made in 18-inch lengths extrapolate to twenty feet.

A. I will be glad to have the calculation made if Mr. Smith is here, or I could make it myself, but this kind of a calculation involves the use of log tables and so forth, of which I have none available.

Mr. Springer. We would be very pleased to have him
986 furnish it at his convenience this afternoon, Mr. Examiner.

The Trial Examiner. Have you all the information you need there now?

The Witness. Yes. I can now apply this data to this modification of the Bureau of Standards formula, and I will give you the result.

By Mr. Springer:

Q. Now, Mr. Rhodes, for the purpose of tracing your conclusions as to the retarding effect of age on the rate of corrosion, could you read from your working papers the results showing

the period of time necessary to reach entire penetration, if pits have penetrated one-quarter of the wall thickness in fifteen years?

A. I will be glad to have that calculation made.

Q. What per cent condition would you place on a transmission pipe in the Hope system if you had used the straight-line extrapolation rather than your retarding curve method?

A. I would not have used it. I would not use the straight line at all, because it is contrary to facts, and I cannot state what condition I would have placed on the property if I had used that method erroneously.

Q. You made such a study, did you not, on casing?

A. I had a calculation made on casing, as a matter of curiosity, to find out what the figures were, but I could not

987 use those figures in depreciating anything.

Q. What percent condition did you reach on that calculation?

A. I did not reach a per cent condition on that calculation. I just reached a figure that would result on certain assumptions contrary to facts, as a matter of curiosity.

Q. Was it not lower than the per cent condition that you used in this exhibit?

A. It was not a per cent condition; it was a calculation under certain assumptions, contrary to the facts and the experience of the Company. The calculation was not used by me at all.

Q. If you had used the straight-line extrapolation method instead of your retarding curve method, would that have resulted in a decrease of about 20 per cent in the per cent condition which you have placed on transmission property?

A. I don't know. I would not use it, because it would not result in any figures that have any meaning as to depreciation.

Q. Would not a substantial amount of money be involved in transmission main pipes which you have given a per cent condition of 79 per cent to, if that were varied one way or the other two per cent?

A. The result would be two per cent one way or the

988 other.

Q. Of $16,500,000 worth of property?

A. Yes; 2 percent of that amount of property is about $300,000 worth of property.

Q. Did you study the causes of corrosion on well tubing?

A. The causes of corrosion on well tubing are largely the same as the causes of corrosion on pipe.

Q. Referring to the field line experience of the Hope Company, do you know that more than two thirds of the field lines that have been constructed by the company have been abandoned and taken up?

A. No.

Q. Approximately 12,000 field lines have been taken up over the life of the Hope Company; did you know that?

A. Taken up or moved to another location?

Q. Taken up and some disposition made of them.

A. I don't know how many have been moved.

Q. You have not given effect to this rate of abandonment and net salvage from that, have you?

A. A reasonable reflection of the fact that field lines are moved from place to place with changed sources of gas supply is reflected in my adjustment to the percent condition of field
989 lines. It is amply reflected. It takes into account that
fact, and it also take into account the reverse fact that in conditioning the laying cost of field pipe as the same as the pipe itself, I have overdepreciated all of the pipe lines that have been moved to new locations.

Q. Mr. Rhodes, in depreciating field lines, what consideration have you given to the gradual exhaustion of the connected gas supply?

A. That is a wholly indeterminate effect. I have studied the condition of the company's wells for some years in the past and find that they reached a condition many years ago which on the average is about the same as the condition which they have now, namely, between 30 and 35 percent. There is no evidence that in the aggregate the Company's wells or gas field are declining. Wells go out and new wells are drilled a short distance away. Sometimes fed by the identical line which was fed by the well which was abandoned. You will find places upon the system with almost every conceivable combination of new and old and abandoned wells.

Taking up of lines with the abandonment of wells is a pretty indefinite thing. I have allowed, I consider, for that, amply, in adding to the depreciation that I found by consideration of corrosion, an additional depreciation of $3\frac{1}{2}$ percent, which is approximation, one-sixth of the depreciation from cor-
999 rosion. That I consider amply reflects all of the deprecia-
tion that exists in the field lines because of the fact that

some of them are moved from this place to that place as the wells are abandoned and new ones are drilled.

Q. Will you state your condition on well construction?

A. The percent condition on well construction which was based on reduction in rock pressure is 33.1 percent.

Q. Does that have any bearing upon the determination of the depreciation of gathering lines?

A. No determinable effect.

Q. I believe you said field and gathering lines are moved to new wells frequently, and you made some allowance for that?

A. Yes. I consider that any depreciation existing in the field lines because of that fact is amply reflected in my field line condition of 67.8 percent.

Q. When field or gathering lines are moved to new wells, the original labor and construction costs are lost because there is no salvage value other than the equipment itself, as the pipe enters its second cycle, isn't that so?

A. Yes. The labor is largely lost; yes.

Q. Those non-recoverable costs are depreciable with the pipe at the original location?

A. That is right, and I have amply reflected that fact in my adjustment.

Q. And your adjustment is a judgment figure or a
991 mathematical figure?

A. It is largely judgment, in that thereis no methematical way of determining just how much depreciation exists in the lines. It is absolutely impossible with respect to most of the individual lines. It can be approximated as related to the whole system.

Q. Do you know what the ratio between labor and materials are on the gathering lines that are moved to new well locations?

A. About half and half.

Q. What do you figure would be the cost to salvage pipe lines?

A. About 15 percent of their total cost in place.

Q. In the case of pipe, other than casing and tubing, where have you given any effect to salvage *in* your exhibit on accrued depreciation?

A. In reaching my conclusions as to the percent depreciation on account of corrosion, I took into account the salvage value for re-use of the pipe. This system is essentially a continuing system which will last indefinitely, and when the pipe in a system

corrodes and has to be replaced, the pipe is re-laid in the same location. The actual cost of lifting the old pope and putting it back again, aside from the cleaning, is less than the cost
992 of laying the line in the first place, so that any pipe that is picked up and cleaned and reconditioned and re-laid, the total labor cost of that operation is the same as the total cost of originally laying the pipe, or practically so.

Q. Now, we have considered the salvage value of that pipe for reconditioning, taking into account the cost of cleaning it and the cost of welding up the deep pits, which are necessary, to make it re-usable. Those things are taken into account and arriving at the final figures which were arrived at as a matter of judgment as to what was indicated by this salvage as compared with carrying the pipe down to a complete depreciation without salvage. The percent condition of the pipe lines fully reflect salvage value of the pipe in re-use. Then you consider that the pipe line system will last through its physical life?

A. It will last indefinitely. There have been no important changes other than additions during the company's whole forty years of history, in its main pipe lines. I have further more increased the pure corrosion depreciation in transmission pipe lines by a further one percent to represent any other depreciation that might exist from other causes.

993 Q. Do you believe that there is an indefinite supply of gas in West Virginia to prolong the life of the pipe line system?

A. There is no indication that would be a guide as to any future exhaustion of the gas supplies of the company. The company's reserves have varied up and down for a period of years, and they certainly are not indicative of a company that is on the way out.

Q. Would it be thirty years or fifty years?

A. There is no indication of any period. In fact, the indication is that the gas available to this company, from some source or other will be available for an indefinite future period.

Q. I hope so. Did you conduct a field examination of the conditions of pipe removed from Line H-5757 of the Hope system at the time the pipe was lifted?

A. Such an inspection was made, but has not been worked up and has not been used by me in reaching my conclusions.

Q. You did not use any of the information secured from that examination?

A. No. I have not even seen it.

Q. That study is available in the working papers, though?

A. No; it is not. The working papers contain the information which I used. That information, so far as I know has never been worked up.

Q. Is it customary to make individual studies that are
994 not used in valuations, and then that cost to be charged in rate case expense?

A. One never succeeds in doing only that which is necessary to arrive at the results. I had the inspections made because I thought it might be needed, and I found as I progressed in my studies and regular inspections, that they were not needed and therefore they have not been used.

Q. Were they any different?

A. I have not seen them.

Q. On page 9 of your exhibit, will you explain the derivation of the 22.5 percent depreciation costs by corrosion of production system pipe lines?

A. That 22 percent figure was arrived at by the use of the equations which I have referred to above, in which there was taken into account the fact that the retardation of corrosion in the company's lines is such that doubling the age results in less than a fifty percent increase in the depth of the pits. That is one of the factors represented by the equations to which I have referred, which sometimes is called the time rule of corrosion. These equations also take into account the fact that the longer the section of pipe which is examined or taken into consideration, the greater will be the depth of the deepest pits. We
995 applied those equations covering this—you might call the length rule of corrosion and the time rule of corrosion to the observed pit depths in the field line pipes, size by size.

The Trial Examiner. Does that length rule apply only to a length of pipe or to the distance between inspection points?

The Witness. That applies to the length of pipe. Take, for instance, roughly speaking, we having examined pipe in sections 18 inches long—if we had found the depths of the deepest pits, we will say 100 mills, had we examined the lengths of pipe three feet long, we would have found approximately 110 and had we examined twenty foot lengths in full, we would have found possibly 135 mills. Those figures are just rough figures, for illustrative purposes.

Now, what might be found in the extremes between locations, that are a mile or more apart, we do not know. We do not purport to say that these equations can be extended to any such extent. We have merely reached the conclusion, which is concurred in by all of those who have studied this method of determining the condition of pipe, that a proper number of inspections, which is 500 or more in this case, or really a thousand individual pieces of pipe, thus give a fair average result that will very closely approximate that if you had two or three
996 or four times as many inspections, or if you inspected every foot of pipe.

There are cases of pipe where there is almost no corrosion at all between these inspection points, and there are other parts of the pipe which might generally be expected to be worse than anything we have seen. We can get only a fair sample for a reasonable cost. But to go back to my explanation now, if I may.

I had the observed results applied to the equations, and I determined the percent of progress to what I called an end point.

One end point was where, in 20 feet of pipe there would be one well-defined hole, and at the point of leaking. I had other determinations made with 40 feet as the unit, and another with 50 feet as the unit. Then, by the use of these same equations in the manner that could be mathematically worked out, I determined what the condition of the pipe would be on the average when it had reached the various end points of one well-defined leak in 20 feet, 40 feet and so forth, determining how many pits would be on the joint per average, which would need welding.

There has been a great deal of experience in welding up of pipe, and in re-laying it, and it is rather commonly accepted practice that if the pipe is welded up so that all pits greater than one third of the pipe wall are filled with material,
997 the pipe can be re-laid and used over again with substantially as long a life as it had in the first place.

There is a sound technical reason for that in that the corrosion begins on the pipe in general when the metal is clean when it goes in the ground, and the rust on the surface of the metal such as is down in those pits, has a tendency to protect it, in fact it is that rust which causes the corrosion of the clean pipes.

I took into account the cost of that welding and the reuse of the pipe to the extent that it was worth while. On the small

pipe it is not worth while, and on big pipe it is a very profitable thing.

These calculations were all made, and the final results were placed before me and they clearly pointed, in my mind, to 22½ percent as the extent to which this pipe had progressed towards deterioration.

By Mr. Springer:

Q. That is also contained in that volume of working papers that will be necessary to understand this exhibit?

A. Those calculations are all there.

Q. Will you please explain the derivation of the 20 percent depreciation of the transmission system pipe lines caused by corrosion?

A. The method was identical with that which I have

998 just described for field lines.

Q. Where is there a difference of 2½ percent?

A. Because the transmission lines have not progressed as far towards complete depreciation as the field lines have.

Q. And how did you determine exactly that 3½ percent should be added for depreciation on production system pipe lines and that 1 percent should be added for depreciation on transmission pipe lines?

A. That is a judgment figure arrived at by a consideration of the extent to which depreciation can exist in these lines from causes other than corrosion. In the case of the transmission lines, there is little or no depreciation from other causes. In the case of the field lines there is a certain amount of depreciation that might be considered as such, because of the fact that lines are moved from location to location. The need of that adjustment being greater in the field lines than in the transmission lines is obvious.

* * *

999 By Mr. Springer:

Q. Mr. Rhodes, I believe you have some computations?

A. They have been made, but I have asked to have them checked, so that there will be no question about it. I think they are right, but they are being checked.

Q. All right.

A. I have the figures now. Shall I furnish them?

Q. Will you read them into the record, with an explanation, so that it won't be necessary for me to refer to the former question?

A. The first computation that I was asked to make was in the case of 6⅝ inch casing having a 250 mill wall thickness, in which the average depth of the deepest pits in one and a half foot sections was 125 mills, and in which the average depth of the
1000 ten deepest pits in all of the eighteen inch sections was 115
mills. It was desired to determine the extent to which corrosion on this pipe had progressed to the point where there would be one well-defined leak in 20 feet. Is that the problem?

Q. Yes.

A. This casing, corroded in the manner indicated here, is decidedly unusual. Nevertheless, applying the formulas to these conditions indicates that the corrosion on this pipe has progressed 36 percent towards the end point.

The second computation that I was asked to make was in the case of the pipe in which the corrosion had progressed to the point where it had penetrated the wall to a quarter of its thickness in fifteen years, and how long would it take this corrosion to penerate the wall of the pipe. The answer to that is 160 years, plus.

Q. That is the total time? Not additional to the 15 years?

A. That is the total time; yes.

Q. Mr. Rhodes, do you have two summary sheets in your working papers, upon which this exhibit is based, entitled "Summary by accounts of observed depreciation adjusted for net salvage, special observations and adjustments by G. I. Rhodes?"

A. That which I have was that, and it is adjustments to include all other depreciations. I adjusted it so that it would
1001 correspond with the text.

* * *

1002 Q. Referring to Exhibit 22 for identification, Mr. Rhodes, will you please classify each type of the adjustments you have made to observed physical depreciation, and indicate the total amount of that class of adjustments?

A. The observed physical depreciation amounts to $30,991,039.

Mr. Cockley. That is on the basis of reproduction cost new? All of those figures?

The Witness. That is correct.

1003 Out of that total, approximately $22,000,000 was in wells. I am bringing out this difference because we made no adjustment to the condition of the wells.

The first adjustment made was to allow for the cost of salvage. In other words, adjusting observed physical depreciation where it reflected no cost of abandonment to the physical depreciation adjusted to reflect the net salvage value rather than gross salvage. This adjustment amounted to $247,043.

The second adjustment was to reflect special observed conditions, such as nonuse and company practice in retiring certain types of equipment already described by me, the total amount of which was $141,883. The last adjustment was made to reflect all other depreciation than that which could be seen, and amounted to $1,251,624. This brings the total amount of depreciation found in the property up to $32,653,183.

By Mr. Springer:

Q. Now, Mr. Rhodes, will you please refer to Exhibit 21 for just a few more questions on pipe lines? It has been computed that you inspected 903 feet of transmission system pipe lines in arriving at the condition percent of the entire transmission system pipe line, which totals more than 5,000,000 feet, is that correct?

1004 A. That is right, approximately.

Q. Did you make a survey of the leaks in the pipe line system?

A. No; but I made an investigation and was informed that there were practically none.

Q. I believe there is an exhibit here that shows leakage in the system of about 4,000,000,000 cubic feet annually?

A. Perhaps there is.

Q. And is not leakage in a pipe line one of the factors which must be considered in determining the condition percent of pipe?

A. No.

Q. Why not?

A. Because leakage of a pipe line is not one of the things that causes retirement. When leaks occur, they are repaired. The leakage that you are referring to is the combined result of many, many things, and of which physical leakage is one. The word "leakage" being used in a broad sense to reflect the difference between the input and the output from the system. Every joint in a pipe leaks, to some extent. Even gas leaks through the pores.

of the pipe. Meter readings are measured on the different pressure bases, and under different measuring conditions, so that the so-called leakage of 4 billion cubic feet is by no means all
1005 represented by actual physical movement of the gas through the pipe walls.

Q. I did not mean to infer that that was a physical loss, but you say there is some physical loss of gas?

A. Oh, yes. Unavoidable physical loss of gas. When leaks occur from corrosion, they are found by the regular inspection of the line, and every summer a special effort is made to find all that have developed, including leaks in couplings and those leaks all are repaired, so that in the normal operation there are very few leaks that are leaks as such, to the extent that they could be found and remedied.

Q. Then you made no study to correlate the leakage of pipe lines to percent condition in this case?

A. No.

Q. Are you familiar with the properties of the Eureka Oil Pipe Line Company?

A. No.

Q. Do you know that they have a system of pipe lines in the territory which is served by the Hope Natural Gas Company?

A. By hearsay only.

Q. Do you know that the Bureau of Valuation of the Interstate Commerce Commission and the Eureka Pipe Line Company have agreed on a service life of 50 years for all of the pipe
1006 in that system?

A. No.

Q. Is not the ascertainment of condition percent about 99 percent judgment?

A. No; 99 percent experience in the study of pipe lines.

Q. Are you familiar with the Columbus rate case of the Ohio Fuel Gas Company, in which a pipe line inspection was made in the customary manner, and in 1929 the company engineers testified that the distribution pipe lines were in 83 percent condition. Five years later, in another rate case, the same engineers testified that the percent condition of the same pipe lines was 91, that it had not depreciated, in fact it had appreciated when it was five years later?

A. I am not familiar with the case

* * *

1007 Q. When you determined the condition per cent of compressor station equipment by inspection, I believe you have based it upon relative conditions of excellent, good, fair, and poor, isn't that right?

A. And bad.

Q. Were those judgment standards, based upon a comparison of the conditions existing in the Hope system, or by a comparison with like equipment new?

A. They were based upon Hope's own practice with respect to the retirement of those wearing parts in service, and their replacement, a bad condition indicating that that particular wearing part was soon to be replaced. An excellent condition indicated that physically it was in the same condition or substantially the same condition that it would have been if it had just
1008 been replaced with a brand new part. The intermediate conditions or rating reflected intermediate conditions that were based on observations and on the judgment of the inspector in consultation with the operators of the equipment, and their replacement records, the length of the engine hours per year, and things of that nature.

Q. What condition per cent did you give to exposed foundations?

A. I gave all foundations the same per cent condition as the units upon which they rested.

Q. In the case of the Bee Compressor Station where there are only two units and four foundations, what treatment did you give to the two foundations that are not used?

A. The same as to the others. There was no equipment on them, and being in zero condition, so were the foundations.

Q. How do you know that the arbitrary per cent condition which you placed on the buried equipment in the compressor stations reveals the actual depreciation?

A. It fairly and reasonably reveals that depreciation, in my judgment. The cost of exposing it and making an inspection was so great as not to justify the trouble involved, it representing a small per centage of the total cost on the investment.

Q. And you did not ascertain the age of that buried
1009 equipment?

A. No.

Q. Are you familiar with the Uniform System of Accounts of the West Virginia Public Service Commission for Gas Utilities, 1939?

A. Only in a general way.

Q. Especially its provision for the treatment of maintenance and depreciation charges?

A. Only in a general way.

Q. And have you considered maintenance in determining condition per cent of compressor station equipment?

A. To that extent, that a well-maintained engine is always in better condition than a neglected engine.

Q. Do you know that the replacement of a bearing or a piston of an engine is a maintenance item?

A. It generally is.

Q. Did you depreciate those items?

A. We depreciated everything that wears on the engine, to determine the extent to which it had depreciated.

Q. And your determination of the condition per cent was influenced by the condition of the parts of an engine, the cost of replacement of which is a maintenance item?

A. Those small parts to which you refer do not contribute
very much to the cost of an engine. The big parts
1010 that affect the cost, like the cylinders, and things of that
nature, are of relative long life, and what the policy might
be with respect to making those changes, I do not know—for replacing those parts, but we have depreciated all engines to reflect all the wear and tear that exists in those engines, and then adjusted the total depreciation, as already explained.

Q. I believe you mentioned that thirty per cent of the engines were wearing parts?

A. As a rough figure; yes.

Q. And over the system, would that amount to a substantial sum of money?

A. Thirty per cent of the whole cost.

Q. And of course the replacement of those parts are maintenance items?

A. They may not be.

The TRIAL EXAMINER. Do you mean of the entire thirty per cent?

By Mr. SPRINGER:

Q. Do you know whether they are, Mr. Rhodes?

A. That is purely a matter of accounting policy over which I have no control. The greater part of the 30 per cent are large items, which should be handled through depreciation. They represent such large sums of money.

1011 The TRIAL EXAMINER. What parts, would you judge?

The WITNESS. As a matter of maintenance—purely of maintenance?

The TRIAL EXAMINER. The portion of it which should be handled through the reserve?

The WITNESS. I think probably four-fifths of it.

By Mr. SPRINGER:

Q. Mr. Rhodes, are you familiar with the list of retirement units in the uniform system of accounts for gas utilities of the West Virginia Public Service Commission for 1939?

A. In general.

Q. Can you find on that list of retirement units any of the items that you say are thirty per cent of the engines that are wearing parts?

A. No. This retirement list includes the whole engine itself as a unit of retirement, which considering some of the $50,000 engines which the company has, seems absurd, as compared with the 20 feet of two-inch pipe on the other hand.

Q. Or a bearing?

A. I consider as the proper retirement units the big things that enter into the construction of these larhe operating units.

1012 Q. Will you please turn to page 13 of Exhibit 21. How did you determine the condition percent of the meters and gauges when the wearing parts are not visible?

A. The wearing parts, meters and gauges that have to be replaced, are of relatively short life. They represent a small portion of the total cost. Again, something in the order of thirty percent. In a system as old as this, it may reasonably expected that those wearing parts range all the way from brand new parts to parts that are just about ready to go, and I had in mind in using these figures as to physical depreciation that on the average we might expect to find those wearing parts about half gone.

Q. You did not ascertain the age of the meters and gauges?

A. It makes no difference how old they are. The wearing parts are old and replaced, and the meter is a new one, as the rest of the meter has not depreciated or worn out.

Q. Does the Hope Company have a large number of Tobey meters?

A. I don't recall the number, but a considerable number.

Q. Are such meters the most modern type of meters?

A. They are generally older than the meters—older than the other meters. They have been priced at a lower price
1013 than the meter that is now used, and they perform substantially as well as the newer types of meters.

Q. The Hope Company is not currently purchasing Tobey meters, is it?

A. No; they are not being made.

Q. Because of improvements that have been made in the manufacture of meters?

A. I don't know why they quit making them. Presumably there are better meters made which are cheaper to make. That in itself would account for the discontinuance of that type of meter.

Q. Will you please refer to page 16 of Exhibit 21. You say "It was agreed in both cases that those undistributed construction costs to the extent of 11.51 percent depreciated with the company's property, and the Ohio Commission so found in the 1932 Akron and the 1937 East Ohio-Cleveland cases." By this, do you mean that 11.51 ~~percent~~ of the undistributed overheads are depreciable?

A. 11.51 percent out of the total of 17 and a fraction depreciated.

Q. How did you determine the depreciation of the depreciable portions of the overheads?

A. By applying 11.53 percent to the total depreciation of the property carried in the respective accounts.

* * *

5308 Cross-examination by Mr. Springer:

Q. And your physical observation was of the poles in the communication system?

A. The physical observation was of the parts of the operating units of the property, poles and wire and everything relating to the communication system.

Q. Now, will you refer to the topic, Compressor Station Equipment, Line (g)? Do you know the company's experience with the Davis Station?

A. I don't recall specifically. Perhaps you will describe it more completely and let me know to what you are referring.

Q. Do you know that a study of the observed conditions of the Davis Station was made in the early 1930's?

A. No; at least I had nothing to do with it.

Q. It was made by your firm, but you had nothing to do with it?

A. Oh yes, the condition of the property was determined 10 years ago by my firm, but I had nothing at all to do with it.

Q. Do you know that the Davis Station was found in 75 percent condition by your firm?

A. No.

Q. Well, will you accept that and check me if I am
5309 wrong; and do you know that after that station was found in 75 percent condition, that it wasn't used, and that certain engines in that station were later abandoned, and that the salvage or junk value was $250 realized by the company, and it cost $600 to remove it?

A. I have been informed to the contrary, that the net salvage value obtained from junking those engines was about 8 percent of the original cost of them.

Q. Will you check that and bring in any proof that you can get and show the retirement work order on that?

A. I will endeavor to do so. May I explain this——

Q. (Interposing.) Well, there is no explanation necessary now.

A. Yes, there is this explanation necessary, because whatever may have been the percent condition found in the property at that time, was found in terms of depreciation as it was practiced at that time. I found it in terms of depreciation as determined and defined by the Commission at this time.

Q. It isn't strange to you that equipment in compressor stations would be found in 75 percent condition, and then within a few years go immediately to zero condition without any operation whatsoever?

A. Yes; I may be perfectly healthy today and dead tomorrow, and a station this year may be in perfect condition and as far as anybody can see will be used indefinitely, and something will happen during this coming summer which would shut that
5310 station down forever—and you can't tell that.

As related to specific pieces of property, you can't tell a thing, and you will note that I have placed a percent condition on the account, not on the individual pieces of property in the account.

Q. How do you figure a condition percent of an account?

A. In the same way that you figure any average. You take the——

Q. (Interposing.) You consider the components, of course?

A. I consider the composite result of everything in the account.

in the same way Mr. French did in determining the composite service lives.

Q. Is it your testimony that retirements of $926,000 represent property retired from gas service and junked or abandoned in connection with compressor stations?

A. No; I have merely stated that Mr. Dunn's figures show that so much property was retired and the losses were so much in the retirement of that property.

Q. Do you know that some of that was re-used?

A. Oh, yes.

Q. Then it becomes apparent that your figures aren't comparable with regard to salvage here?

Mr. Cockley. Comparable with what? I object to the question as not complete.

Mr. Springer. Will you read my question, please?

5311 (The question was read by the reporter.)

By Mr. Springer:

Q. By that I mean that you studied retirements of property which you admit had some units which were re-used, and you talked about salvage?

A. Yes.

Q. And Mr. French studied salvage only from retirements of property which was actually never used again. So your salvage figures aren't comparable with his?

A. Well, I have already explained that this surviving property involving a number of millions of dollars in my opinion will not, in the number of years Mr. French has said, go down to zero salvage. I can't conceive of the sudden drop from 45 percent in the past to zero in the future.

Q. But you can conceive of a sudden drop in condition percent from 75 percent to zero overnight?

A. As related to individual pieces of properties, yes, but not as related to a large group of properties costing many millions of dollars.

Q. Of course a group is the sum of the individual units of property?

A. Oh, yes; but the whole theory of depreciation as applied by the Commission applies to averages and ignores the individual items.

Q. Of course, that is not a very logical statement, is

5312 it?

A. Well, it is a fact.

Q. You mean that you can get a composite group rate by ignoring the individual?

A. You ignore the individual as an individual, but of course you take into account the effect of the thousands of individuals going to make up the whole population.

Q. Do you know what the percent condition was which you found for four gas engines in the Hastings compressor station?

A. I don't recall. The figure we found as related to those engines was found as a contribution to the composite over-all depreciation picture. I do remember that I took into account the use to which those engines were put, and the extremely low cost per horsepower of that station as a standby station.

Q. Will you furnish the condition percent of those four gas engines tomorrow?

A. I cannot do that because I did not find what I call the condition percent of those engines. I can find for you and produce the results of the physical examination of the men who studied the engines.

Q. We will present a photostat of your papers where you did make such a determination, to you tomorrow.

A. No; my determinations of condition percent, as I have
5313 testified more than once, were intended to apply to the account as a whole. As related to any individual part of the account, they are what you could see, and represent the extent to which that contributes, and you will also recall that after having added up and determined the composite, I made an over-all adjustment of the whole thing, not to any one particular station, and accordingly the figures as they relate to one station are not final figures, they are just a step to the final answer.

Q. Do you remember that your condition percent of the four gas engines was about 88 percent in your working papers?

A. No; I don't recall the figure.

Q. Do you know what the present age of those four gas engines is?

A. About 35 years.

Q. Mr. Rhodes, do you remember discussing the other day [5962] [5963] the percent condition of the four gas engines located at Hastings station, which I told you appeared in your working papers?

A. I remember your asking me about them.

Q. Well, I have photostatic copies of your inspection sheets, and will you identify them and tell us what condition you have shown on each one?

First, may these be marked for identification as Exhibits 123–A, 123–B, 123–C and 123–D?

TRIAL EXAMINER. They may be so marked.

(The documents referred to were marked Exhibits Nos. 123–A, 123–B, 123–C and 123–D for identification.)

The WITNESS. These are the field reports of my assistant who inspected these engines, and the figures shown on these as representing the purely physical condition of the engines are, with respect to No. 1–A, 85.6 percent——

TRIAL EXAMINER (Interposing). What exhibit is that?

Mr. SPRINGER. That is Exhibit 123–D.

The WITNESS. Engine 1–B, 85.8 percent.

Mr. SPRINGER. That is Exhibit 123–C.

The WITNESS. Engine 2–C, 88.3 percent.

Mr. SPRINGER. That is Exhibit 123–B.

The WITNESS. And engine 2–D, 88.8 percent.

Mr. SPRINGER. That is Exhibit 123–A.

The WITNESS. These being the physical percent condition
5964 representing the extent to which the engines have worn out in service.

By Mr. SPRINGER:

Q. You added 2 percent, I believe, to that physical condition percent, did you not?

A. Not to each station, I determined the physical percent condition, or my assistants did, with respect to all of the stations; I adjusted them downward to reflect the cost of abandoning; I then made specific further reductions on account of causes which are self-evident in some of the stations; and then the whole overall resultant percent was again reduced 2 percent without reference to any particular station.

Q. Then your physical condition percent, shown by Exhibits 123–A, 123–B, 123–C and 123–D for these four gas engines located at Hastings, is about 88 percent?

A. I think it would average about that; yes.

Q. And I believe you testified that those engines are about 35 years old?

A. Yes; they are rather old now.

Q. Do you know what percent of the time those engines are used?

A. Not specifically. I do know that they are used solely for peak load purposes, and I would expect it might average about 1 to 2 percent of the time.

Mr. Springer. I offer in evidence Exhibits 123–A, 123–B,
5965 123–C and 123–D as part of Mr. Rhodes' cross-examination.

Mr. Cockley. May I see them?

(Exhibits handed to Mr. Cockley.)

Mr. Cockley. No objection.

Trial Examiner. Does the City of Cleveland or the State of West Virginia have any objection?

Mr. Reeder. No objection.

Mr. Koontz. No objection.

Trial Examiner: Exhibits 123–A, 123–B, 123–C and 123–D are admitted in evidence.

(Exhibits Nos. 123–A, 123–B, 123–C and 123–D were received in evidence.)

2993 TESTIMONY OF F. P. C. WITNESS DUNN ON DEPLETION AND DEPRECIATION RESERVE REQUIREMENT

Transcript Pages 2993–3010, 3052–3124, 3621–3699

* * *

Cross-examination by Mr. Milde:

Q. Is it correct to say, Mr. Dunn, that your summary sheet in this exhibit is Schedule No. 1 on page 23?

A. Yes; that is the summary sheet of all figures.

Q. Now I want to deal this morning only with the depletion figures, as you have worked them out.

Now generally, in your work as you said, you applied this information which was submitted to you to certain costs, did you not, to arrive at your figures for depletion and depreciation and depreciation reserves?

A. Yes, we have segregated the company's costs into two general classes, depreciable and depletable.

Q. Now I notice in your first heading on Schedule No. 1
2994 that you say, "Cost subject to depletion and depreciation", and your next line is "Original Charges per Books", which, for the total plant in column (b), is $73,500,000?

A. That is right.

Q. Just what is that figure?

A. That figure is not actually used in any of these calculations, but in order to present the total amount that we have considered over this period of approximately 40 years,—that is, it is the total dollars, but it wasn't used in any method as such, and has no significance other than as a check for adjusted book costs at December 31, 1938; but it was not used in any calculations.

Q. That is just for general informative purposes?

A. That is right.

Q. And when you said before that you wanted to show the total dollars you were dealing with, does that mean the dollars that the company happened to capitalize on its books, is that what that figure means?

A. Yes, sir; the total investment in plant accounts.

Q. That is, it is whatever part of the cost of the company's properties it had capitalized?

A. That is correct.

Q. And that is all that figure represents?

A. That is all.

Trial Examiner. During its entire history?

2995 The Witness. Through its entire history.

By Mr. Milde:

Q. Now what does line 2, "Adjustments by Examiners," represent?

A. That is an amount of $1,043,329.44, and I believe in the written statement there is an explanation of that amount, exactly what it is composed of and what it means, and you will find that on page 8.

Q. All I am trying to find out, Mr. Dunn, is what that represents, because page 8 merely says that the examiners made certain adjustments and lists the amount; and I just wanted some further indication of what the figures are, that was all.

A. Well, if you will look on the summary schedule of the original cost exhibit, you will find every examiner's adjustment listed there, made to the original cost, referenced by entry numbers which serve to identify each adjustment, and this amount is $2,099,171.81.

Q. Are these some items that were on the books which were capitalized, which you deducted in the course of the examiners' adjustments?

A. If you will notice, this is the result of the original cost study made by the company, the result of the examiners' check of it, and most of these adjustments are adjustments prepared as a result of the company's original cost study, but not

2996 put on the books, and in the main represent unrecorded retirements at December 31, 1938, but many other adjustments are included in there, too.

Q. But mainly unrecorded retirements?

A. In dollars, that is the largest amount.

Q. Well, I was curious, Mr. Dunn, as to why you deducted that figure from your line 1 to show an adjusted total cost subject to depletion and depreciation in line 3 of Schedule No. 1?

A. Well, we are going to bring that adjusted total cost down to the adjusted cost at December 31, 1938, and obviously we are going to take out of there the property that we took out in original cost in order to come to that figure.

Q. Well, that doesn't mean that the company doesn't have that property capitalized on its books at one time, does it?

A. Oh, no; by no means. I am just going down to the balance at December 31, 1938, and as I explained before, this $1,043,000, having been included in the total of $73,000,000, has received its share of depletion expense and accrued reserve, and it is charged off against the reserve by our entries.

Q. Well, we will come to that a little later. But what you say in your line 3, as I understand it, is that you had deducted from the amount of cost the company had capitalized on its books over the course of these years, $1,000,000, which consisted largely of unrecorded retirements, and you come to
2997 $72,500,000 which you say is the adjusted total cost subject to depletion and depreciation. You don't mean to say that depreciation and depletion should not have been taken on the $1,000,000?

A. No; I didn't have that in mind at all.

Q. Wouldn't it have been a little more accurate to include that in your line 4, if you were just wanting to come down to your adjusted book cost?

A. Yes, possibly having two sections of line 4 would show company retirements as recorded, and then these additional unrecorded retirements. That would have been perfectly all right.

Q. Well, actually you don't use any of these figures on Schedule No. 1, do you, Mr. Dunn, except line 5; adjusted book costs; that is, that is what you are dealing with here?

A. I use them all in this way—that this is just a grand total of them. I use them annually, year by year; they are all used, of course, and they finally work out to the $51,207,000 which was the adjusted original cost at December 31, 1938, and I put that in there to provide a complete tie-in to the original cost statement.

Q. Well, but the annual depreciation and depletion rates which you are developing, and the adjusted depreciation reserve which was developed, are applicable solely, are they not, to your
2998 adjusted book cost as of December 31, 1938, or adjusted book cost as of 1937 or 1939?

A. Well, yes; as of December 31, 1938, they are applicable as to the cost as of that year; and as of any other year, to the cost at the end of that year. You must understand that Mr. Antonelli, in his original cost study, didn't attempt to make his costs retroactive. He merely took the property that he found at

the end of 1938 and adjusted that property without making any retroactive adjustments.

Q. I just want to clarify, Mr. Dunn, what you say on pages 1 and 2, where you say that plant costs have been depreciated and depleted, respectively. Now what do you mean by "plant costs?"

A. I mean the cost is recorded in what is ordinarily known as fixed capital accounts, which we have considered as being gas plant in service. There are several ways of describing plant costs. We have had several accounting systems in the past, so they fall into different account numbers, but in general it is what is known as fixed capital items.

Q. Well, isn't this true, Mr. Dunn, that what you mean in this exhibit by "plant costs" is that portion of the cost of the plant that the company capitalized on its books?

A. That is right.

Q. And as of December 31, 1938, as shown in your line 5 on Schedule No. 1, your plant costs show precisely the same figure as adjusted book costs of $51,200,000, isn't that so?

2999 A. That is right.

Q. Now going a little further down your Schedule No. 1, Mr. Dunn, I notice that you have this same adjusted book cost figure, or plant cost figure, repeated in line 55 under column (b) for total plant?

A. Yes.

Q. Isn't that so?

A. Yes.

Q. And there you call it "adjusted original book cost." There is no particular significance to your various terminology, I assume; it is the same figure, is it not?

A. The same figure and same meaning.

Q. And that is the adjusted book cost in line 55 just as it is in line 5?

A. Yes.

Q. And your next item there is adjusted depreciation reserves, in line 56, of $23,500,000 for total plant. Now that is the figure you are attempting to arrive at in this exhibit, is it not? I mean, that is the result of your calculations in this exhibit, and your supporting papers?

A. That is one result; yes.

Q. And the other result is your annual allowance?

A. Yes; that is correct.

Q. Now in line 57 you show a figure of $27,700,000 as net book cost. That is deducting from your adjusted book
3000 cost the adjusted depreciation reserve as you have determined it, isn't that so?

A. That is right.

Q. And is that net book cost the net book cost of the company's total plant as defined in the Commission's Uniform System of Accounts?

A. To what definition do you refer in the System of Accounts?

Q. Do you have your code with you?

A. Yes.

Q. Well, I have noticed, Mr. Dunn, that in the definitions on page 4 of the Commission's Classification of Accounts, Exhibit No. 58, there is a definition for net book cost, item 24, which reads:

"'Net Book Cost', when applied to gas plant means the book cost less related depreciation, amortization and depletion reserves. When applied to other property, it means book cost less related reserves for loss in value."

A. That is exactly the same.

Q. And that is what you have in this exhibit?

A. That is right.

Q. And by that you mean you have the net book cost in accordance with the Commission's Classification of Accounts if its books were completely re-set as you and Mr. Pace and other members of the accounting staff have reset them in
3001 these exhibits?

* * *

3002 The Witness. The purpose of this study was not particularly directed with any thought in mind of resetting the books, and I believe I would have arrived at the same results as I did here, regardless of any System of Accounts. If I hadn't had this System of Accounts at all, I would still have gotten this same answer.

But I believe what you have in mind by your question is that if all of our adjustments were recorded, then the books of the company would reflect this amount of money. That is
3003 the way I believe you meant it.

By Mr. Milde:

Q. And this is not the net book cost as shown by the company's books, or anything like that?

A. No, sir; that figure does not appear on the company's books.

Q. And this is simply a figure you arrive at by applying your own adjustments and determinations of depreciation reserves, and so on?

A. Applying both ours and certain adjustments proposed by the company itself.

Q. That is right. Now in arriving at your adjusted depreciation reserve, Mr. Dunn, as you show it for total plant, of $23,500,000, you say on page 7 of your text that all plant costs from the inception of the company have been considered in the depreciation and depletion calculations. Do you find that statement on page 7 under your heading, "Costs Subject to Depreciation and Depletion"?

A. That is correct.

Q. Now what you really mean there, don't you, Mr. Dunn, is that it is the plant cost which the company capitalized in the past?

A. That is right; I did not attempt to compute depletion on items charged to expense.

3004 Q. Well, you didn't mean by "all plant costs," the amount of money actually paid by the company for the plant, did you?

A. The amount actually paid has been very carefully distinguished by Mr. Smith in his testimony, that you can pay for two types of costs, expense costs and plant costs. I charged the plant costs, the amount charged for plant, in this depletion study.

Q. We are perfectly clear, aren't we, that what we mean is that portion of whatever was paid to construct the property which the company capitalized, and no other portion of the moneys that were paid out to build the property?

A. That is right.

Q. And that is all you meant by this statement on page 7?

A. That is correct.

Q. Now isn't it a fact that this adjusted depreciation reserve we are talking about here, as shown in Schedule 1, can be used only in connection with your adjusted book cost, as you show it in line 5?

A. That is correct, it is directly related to that book cost, and has no relation to any other figure whatsoever.

Q. And this might be called an adjusted depreciation reserve applicable to adjusted book cost?

A. That is right.

3005 Q. Now this same schedule No. 1 shows, does it not, Mr. Dunn, that of the total plant of $51,200,000, or rather he adjusted book cost of total plant in that amount, you have reated, by depletion methods or depreciation calculations, about $10,000,000, as shown in column (c)?

A. That is correct.

Q. Now isn't it a fact that the supporting schedule for the figures you show in column (c) to which I just referred, is Schedule No. 2 on page 25?

A. That is correct.

Q. And here in column (b) under "Total," and in line 5, we again find this approximately $10,000,000 adjusted book cost of depletable property which you show in Schedule No. 1?

A. It is exactly the same figure.

Q. Now this shows, does it not, that you treat by depletion methods, "Operated Acreage," "Field Line Right-of-way and Construction Cost," "Gas Well Construction," and "Cost of Abandoning Gas Wells"?

A. That is the various subdivisions of this depletion calculation.

Q. Now you don't show anywhere in this exhibit, do you, Mr. Dunn, the details, or rather the methods by which you arrive at these figures on Schedule No. 2?

A. There is a little further break-down of Schedule No. 2 shown as Schedules 2-A, 2-B, 2-C, and 2-D.

3006 Q. Well, that is merely a break-down under your general classifications of the figures you show in total on Schedule No. 2?

A. Yes.

Q. But doesn't explain how you did it?

A. No; that does not show the detailed calculations; just a summary again.

Q. And the text of your exhibit merely says that you applied the depletion rates which we have just discussed?

A. Yes.

Q. And that information?

A. Yes.

Q. But you have supplied to us your working papers?

A. Yes; my working papers are voluminous and I have given you all the underlying calculations to check.

Q. Now in view of the absence of an explanation of just what you did here, Mr. Dunn, I want to go over some of these items so that we all have an understanding of how you proceeded, and how you arrived at your final result. Now I notice under column (e) in Schedule No. 2, Gas Well Construction, you show your first figure for the year 1923; isn't that right?

A. That is right.

Q. And no depletion figures for any year prior to that?

A. That is correct.

3007 Q. Just why is that?

A. That is because all gas well construction was charged to some other account than plant accounts prior to 1923. In other words, there is no depletion expense because the entire cost of the plant represented by gas well construction has been charged to expense direct.

Q. Well, what it means, does it not, is that you are dealing in your study only with the wells whose construction costs have been capitalized since 1923?

A. Dealing only with those wells.

Q. And how many wells is that?

A. I believe somewhere in the neighborhood—I believe in the plant account we show a total of slightly over 700 wells.

Q. 772 is the figure; do you recall that?

A. I believe that is it.

Q. So what you are working out in column (e) of the Gas Well Construction, is a depletion allowance for 772 wells out of the company's 3,300?

A. I believe I will have to correct that a little bit. We also considered all the wells in which cost was capitalized and then the well was retired, we considered those wells in this annual allowance, also.

Q. I see.

A. There are not very many of those, however.

3008 Q. We will get to that in a moment. But what you finally arrive at for your adjusted depletion reserve in column (e) as shown in line 41, of $1,100,000, is a depletion reserve computed only for 772 out of the company's 3,300 wells?

A. That is applicable to those 772 wells.

Q. And that is all it is applicable to?

A. That is all; yes.

Q. And your depletion allowance, as you show it; say, for 1937 and 1938, is for those wells only?

A. No: it is for any wells that the company might have had at that particular date.

Q. Plus any other wells that may have been in existence at 1937 and 1938 which the company happened to capitalize?

A. That is right.

Q. And which hadn't gone out of service in 1937 and 1938?

A. Yes, sir.

Q. Now you say on page 9 of your text that your method or basis of depletion in connection with gas well construction is annual production, do you not?

A. Yes; I do say so.

Q. Now did you actually use the annual production from these 772 wells, or other wells capitalized since 1923, in determining your figures?

3009 A. I might say that we didn't separate the annual production by individual wells, we separated it by these production areas, and also about 75 or 80 individual wells. So therefore, I must answer that by referring to one particular pool, and then I can give you a more direct answer.

Q. Well, I think you can tell me generally what I want to know now, Mr. Dunn. You have considered, haven't you, the production and the reserves for all of the company's wells in your figures: you haven't merely confined your depletion rates on the basis of the production and reserves of 772 wells?

A. Well, I would like to give you an illustration. Production Area No. 1-1 had no well construction costs capitalized whatsoever in it, and I did not include any production figures from Production Area 1-1 in my calculations for depletion.

Q. No: but suppose, Mr. Dunn, that you refer to Production Area 6-1—what did you do there?

A. I used the production from that particular pool from 1923 on; nothing prior to that.

Q. Well, I think I ought to have a direct statement, Mr. Dunn. You know what I mean when I say, "Did you use only the production from these 772 wells for which you have costs in your book account, or did you use production for all of the company's wells"?

3010 A. Oh, I said I used the total production from that pool area, which would be every well in there that produced gas from 1923 on.

* * *

3052 Q. Now I want to go back for just a minute, Mr. Dunn, to page 9 of your exhibit, where you say that the basis of depreciation and depletion as appearing on your table at the bottom of page 9 for gas well construction is annual production.

A. Yes.

Q. Now, suppose you applied whatever you meant by the words "annual production" to a single well, how would you determine the depletion and depletion reserve?

A. I would take the original cost of the well when it was first placed in service and would determine the rate based on the remaining gas reserve, the total in this case, and the annual production, and applying that rate to the cost of the well would produce an amount of expense, and that expense accumulates to build up a reserve. Any retirements from this well are charged to the accumulated reserve, less whatever salvage is recovered.

* * *

3053 Q. Getting back to our well, Mr. Dunn, do I understand if you had one well you would ascertain from somebody probably a geologist, the probable total recovery in m. c. f. from that well?

A. That is correct.

Q. Then you would get from an operating man the
3054 amount of production, either metered or estimated by
whatever you could do, and determine what percentage that was each year?

A. Yes.

Q. And that is the percentage of production and the remaining reserve after deducting plant depletion?

A. Yes.

Q. Then you apply that to your original cost to set up a reserve in dollars?

A. The way it actually operates is you use the remaining gas and remaining book cost. That automatically corrects any slight error that might occur in the estimate of the reserve.

Q. If one-half of the gas has gone from the well, as a physical matter, what is the ratio of your depletion reserve to the original book cost, or to the original cost?

A. On a unit basis, one well would probably be 50 percent.

Q. Fifty percent?

A. Yes.

Q. Would you say that accurately measured the amount of depletion in that particular well as of that particular day?

A. Yes; that would be a very good measure.

3055 Q. It would be an exact measure, would it not?

A. Well, to the extent that the estimate was correct it would be exact. The estimate may be incorrect. Of course; it is absolutely impossible to get it exactly.

Q. Of course, it would depend on if you had the right reserve.

A. We are dealing in this case with estimates.

Q. So we have found out. Now, if you had 772 wells and obtained the correct recoverable reserve for those 772 wells, or as nearly correct as geologists could estimate them, and then treated the 772 wells as a group and following the same method you apply to an individual well, what would be the ratio of your depletion reserve to the original cost of those 772 wells when half of the gas was gone?

A. Well, it might be 50 percent or it might be less. It could not very well be over 50 percent.

Q. If it were to be an accurate measure, it would have to be 50 percent, would it not?

A. Of course you are assuming there are no retirements and no well out of these has been abandoned.

Q. We are talking about the 772 wells which are now in existence.

A. And all came in the same day and went into production the same day?

Q. That would not make any difference, would it?

3056 A. Oh, yes.

Q. Well, Mr. Dunn, whether they came in on one day or the next day, if you are dealing with 772 wells, you could total up your figures across and get the same result.

A. Some of them are drilled deeper, which would increase the cost, while the reserve may be either more or less than the well originally had. There are many problems involved in that.

Q. As a practical matter, if you had a total reserve of these 772 wells and applied the method which you have used for one well, your reserve should be about 50 percent when half the gas is gone, should it not?

A. Provided that we make the assumption complete and you never drill any well deeper or do not change your gas reserve in any way or do not bring in more gas reserves, and they all went into production the same day and were retired the same day, then I suppose that would be 50 percent.

Q. I am coming to that in a moment, Mr. Dunn. Now, that is not what you did in this case, is it?

A. No: it is not.

Q. Now, as a matter of fact, you did not use in working out your figures, the remaining recoverable reserves for these 772 wells at all, did you?

3057 A. I believe I identified the reserves I used and the geologist's report, and did not relate it to any particular well as such.

Q. Did you know precisely what was included in the recoverable reserve figures which you got from the engineering department or the geological department when you made your figures?

A. I relied on their description, which said present drilled wells as of December 31, 1938. That is the figure that I was using. I believe I did use the amount shown under that heading.

Q. Is it not a fact that what you did was to take these reserve figures that somebody gave you and which spread out the company's gas reserves and production, and so forth, by 76 pool areas and use the figure finally for total ultimate recovery of m. c. f. as your starting point?

A. I think the starting point was the amount of recoverable gas from present drilled wells as of December 31, 1938. That was the starting point.

Q. Then what did you do?

A. I took the annual production figures, not just production from present drilled wells, but all wells, and computed the amount of reserves at the beginning of each prior year.

3058 Q. And you worked out in that method the remaining reserve all of the way back to 1923; is that it?

A. Yes, sir.

Q. And that was worked out by your application of a correction factor that was supplied to you, was it not?

A. The correction factor, of course, was to convert production.

Q. You are not vouching for the accuracy of these reserve estimates at the end of each year back to 1923, are you?

A. Obviously they are correct. They are only just as far wrong as the last preceding one is wrong.

Q. And if the correction factor, for example, were inaccurate or could not be applied to each pool area, your calculations would carry through those errors, would they not?

A. To that extent there would be an error in each calculation.

Q. That is right. You took me rather far afield from my notes, Mr. Dunn, and I want to get back to them again. Now, in these reserve figures we have just been talking about, it is a fact, is it

not, that you included in them nothing for deeper drilling of these present wells?

3059 A. That is the figure shown directly underneath the estimated production from present wells, is it not? Is that the figure to which you refer?

Q. I just want to know what you used.

A. As I stated before, I used only the reserve from the present drilled wells as of December 31, 1938.

Q. As they were then drilled?

A. Yes.

Q. If those wells were drilled deeper, you did not take account of any such additional production?

A. That would automatically follow. If you spend more money, you get more gas, and it goes into the rate automatically when that occurs. Of course, we do not take account of it before it happens.

Q. Is it not a fact, Mr. Dunn, your geologist estimated what the recoverable reserves would be from deeper drilling of present wells?

A. Yes.

Q. And you just discarded that figure, did you?

A. No.

Q. You did not use it, did you?

A. It does not apply yet. It applies when deeper drilling occurs.

Q. You did not use it at all?

A. No.

3060 Q. It is your theory if you drill a well down to 1,000 feet you just use the reserves that you get then for that well and all of the other wells in the vicinity and work out a depletion rate, and then you drill it down about 1,000 feet and you add your additional reserve at that time?

A. Obviously you add some cost for that expense, but you also get more gas and you add the gas and it therefore keeps in relationship. It is a very simple matter.

Q. That is not what you actually did for past years?

A. It was not necessary in past years. In fact, I did not have the figure broken down and it would be necessary to go back and separate all of those years out and go through all of them.

Q. You just did not do it in the past and you say that is the way to do it in the future?

A. As a practical method, rather than recompute the whole thing every year, you just add to it year by year. Why compute the whole schedule when it is unnecessary?

Q. Mr. Dunn, do you recall that Mr. Ross put in an additional gas reserve exhibit giving some figures for December 31, 1939?

A. Yes; I have seen his exhibit for 1939.

3061 Q. You are aware, are you not, that in that exhibit he made some changes in his previous estimate of recoverable reserves, drilled wells, pool areas, and what not?

A. I could not tell whether he made changes in his reserves or whether the figures were incorrectly computed, mistakes of addition. I did find many of them and he advised me there were many changes in addition. I could not tell whether it was a change in estimate or a change in addition, but they were very minor.

Q. That is your opinion?

A. I heard testimony by Mr. Ross that three or four percent of the total was a minor matter, and this could not be one-half of one percent; so it must be minor.

Q. Well, is it not a fact that on your method of calculating depletion on wells and on the other properties we are going to come to in a moment, you have just assumed that the reserve figures as of December 31, 1938, are accurate?

A. Yes, indeed.

Q. And to the extent that additional developments of the gas territory indicate, for example, in 1939, inaccuracies in those estimates, you have not taken them into account?

A. Well, I would take them in account when they develop.

3062 Q. You did not make any revised figures as of 1938 on account of Mr. Ross' changed figures in 1939, did you?

A. I do not know what the changes are yet.

Q. And you have not investigated that?

A. What?

Q. You did not investigate that?

A. Mr. Ross informed me there were some, and he has not given me the absolute amount as yet that I know of.

Q. Now, getting back finally to the first question I asked you when we started off, Mr. Dunn, is it not a fact that so far as working out the depletion allowance and reserve for these ~~772~~ well is concerned, you have actually considered the production and the recoverable reserves from all of the company's 3,300 wells, with the exception of such of the company's 3,300 wells as

are in pool areas where none of the well drilling costs happen to be capitalized?

A. And the further exception that no production goes back prior to 1923.

Q. That is right?

A. That is correct.

Q. Do you know how many of your pool areas have wells
in them for which you have no construction costs
3063 whatsoever?

A. I would have to go through each one and see. I do not think there are many of them.

Q. You do not think there are many?

A. No.

Q. So, with these exceptions that we have made, is the general statement you have used the 3,300 wells, and that those exceptions are very minor?

A. Yes; in fact, it is all very minor.

Q. Now, turning to your schedule No. 1—first, referring back to your schedule No. 2 on page 25, your column "D" shows your computations for field line rights-of-way and construction costs, does it not?

A That is correct.

Q. Now, did you group these particular properties into pool areas the way you did your wells?

A. Yes; in a similar manner to the wells.

Q. You did that personally?

A. No; not personally. Several examiners of accounts did that, and they did it from the data furnished by the engineering division as to the location, by production areas, of the physical property.

Q. That is what I want to be sure about. Is it the engi-
neering division, Mr. French or Mr. Brown or whoever it is—
3064 is it the engineering division grouped these properties, with
you doing the mathematical work, or accounting?

A. It is the engineers who have designated the items of property ~~by the~~ various production areas.

Q. I see. Did they tell you to group these properties into pool areas, or did you tell them to give you the figures by pool areas?

A. I do not believe I know. It was probably decided in a conference in some way to arrange these 73 pools and this depletion, and I do not know who was primarily responsible for the first suggestion, if it might be called that. It certainly was not me because I was not here when these 73 areas were arranged.

Q. You are a recent arrival on these fields, are you not, Mr. Dunn?

A. October 21, 1940.

Q. So I judge from what you have said you are not taking responsibility for this general process of segregating the company's properties into areas, production areas; is that right?

A. I would not want to disclaim that or say I do not believe in it. I believe it is perfectly proper.

Q. Proper for what?

A. As a method of depletion and determining the amount of accrued reserve.

3065 Q. Is it an application of what you call the group method?

A. Yes.

A. I see. Would it not be an application of the group method just to group all of the company's properties into one series of depletion and depreciation calculations?

A. Yes; that would be a larger group.

Q. A larger group?

A. Yes.

Q. Do you think it necessary that the company's properties be split up into these particular pool areas in order to apply your group method?

A. It is not absolutely necessary. I would say that this is a refinement; because we wanted to know whether or not there would be any material difference, and I do not think now that there would be. But this is a refinement of a problem, for added accuracy.

Q. Well, this is something intermediate between the group method and the unit method; is that it?

A. I do not believe you could relate it in any way to the unit method. It is a refinement of the group method, I would say.

Q. Are you taking responsibility for this particular method of grouping these properties?

A. No; I do not know enough about the underlying
3066 geology to take full responsibility, but assuming the geologists are correct, I would take full responsibility for any computation of cost by reason of this grouping.

Q. All right. Now, what geological assumption has to be correct in order to have these pool areas segregated?

* * *

3070 Q. I think the question, Mr. Dunn, which we were discussing, is that your assumption was that it was not necessary that the production and reserves of pool areas and individual

wells, as you have classified them, be accurate, so long as the over-all production and reserves were accurate; is that right?

A. Maximum accuracy is desirable, but not absolutely necessary.

Q. And it is your testimony, is it, that if there are errors as to the production and reserves of any one or more of your individual pool areas, or individual wells, that that is immaterial?

A. Errors in estimates of gas applicable to the gas reserves?

3071 Q. That is right.

A. I believe it would be rather immaterial, it might play some part in the final answer.

Q. Now on what do you base that belief?

A. Largely because we have not taken out or eliminated any part of the total, it is all in there, and if the division is wrong, it means that one is too high and one is too low, there would tend to be an offsetting error.

Q. You don't know whether those errors will offset each other or not, do you, Mr. Dunn?

A. Not exactly.

Q. Do you know at all?

A. Yes, sir; ~~that~~ is exactly what, it would be, an offsetting error.

Q. Now, Mr. Dunn, offsetting errors, you know, do you not, as an accountant, could never balance each other if you are dealing with segregations of property into unequal units?

A. That is right. I testified that they might not exactly offset, but they would tend to offset.

Q. And isn't it a fact that the pool areas shown on Exhibit No. 41, and the property in those various pool areas as they appear in the original cost exhibit, 57, are very unequal?

A. Yes; they are very unequal.

Q. In some places you have got very little property,
3072 and in some places you have got a great deal of property?

A. Yes; that is right.

Q. Now as I recall it, you said that that was the only assumption, that is, the accuracy of an over-all estimate of production and gas reserves was the only assumption that you needed to consider as being accurate in order for you to say that you thought this division into pool areas, and so on, was proper; is that right?

A. I would prefer to let the geologists testify as to the division into pool areas. That is just my opinion, but the accuracy of these pool areas is up to the geologists, not up to me.

Q. But you have expressed an opinion, Mr. Dunn, and I want to know whether that is the only thing, the accuracy of that over-all estimate is the only thing that you think needs to be accurate, in order to support your view, as you have expressed it, that this division into pool areas is proper for the purposes for which you used it?

A. No; my view is that accuracy should extend down to the ultimate refinement if possible, but it may not be possible, and it may not happen that way. The most desirable and the most important accuracy is desired in the total. I would like to have it as accurate as possible, that is my position.

Q. Well, I am asking you if all that you think is necessary in order to support these pool areas, applied as you
3073 applied them, is an accurate over-all estimate of production and reserves?

A. No; I needed what I got, and that is a break-down of those reserves by production areas. I needed that in order to make my computations, and a reasonable break-down, particularly.

Q. Well, Mr. Dunn, when you assume that this pool area method, let us call it that, is proper—or rather, you have expressed your opinion that it is proper—do you not have to assume something as to the operation of the companay's properties?

A. Well, I think the operation of their properties up to 1938 is a fact, and it doesn't require any assumption.

Q. Well, that is just what I want to go into and inquire about, Mr. Dunn. Don't you have to assume that the properties which you have segregated into pool areas are operated in a particular way?

A. The method in which I have considered them as being operated is all reflected in the amount of gas withdrawn.

Q. Well, precisely what did you assume, then, either in expressing your opinion that this was proper, or in using these figures, as to the operations of the company by pool areas?

A. I didn't assume anything further than is shown in these depletion schedules.

3074 Q. And what is shown in your depletion schedules as to the operations of the company by pool areas?

A. The amount of gas withdrawn and the amount of gas remaining at December 31, 1938.

Q. That is the only thing that is shown in your exhibit?

A. Well, from the operating side. Of course, from the plant side there is the investment in the pool areas, which changes year by year—wells are added and wells are retired, or field lines are

added and field lines are retired, and it is continually changing.

Q. And the only thing you have assumed is that gas is produced from these 76 pool areas and 100-and-some individual wells, is that right, so far as an operating fact is concerned?

A. I don't think I have even assumed that; I think that that is what actually happened; that gas was withdrawn from these areas.

TRIAL EXAMINER. The use of that word "assumed" has certainly got me confused. I don't know whether it has the witness, or not.

Mr. MILDE. I will see if I can't clear that up.

By Mr. MILDE:

Q. On your own theories and computations, don't you have to assume that these properties which you have segregated into pool areas are used solely and exclusively to produce gas from that pool area?

3075 A. In the case of wells, I would say yes; but in the case of field lines, it could well happen that a field line in one or two instances might extend over into another production area.

Q. Well, isn't it a fact, Mr. Dunn, that you deplete field line construction by pool areas on the assumption that when the gas is gone, as other members of the Commission's staff gave it to you, that that line will be completely out of service; the lines in that pool area will be completely out of service?

A. On the theory or assumption that the construction costs will have no further value.

Q. That is right, and you make that assumption that when these gas reserves you have worked with by pool areas are gone, that the construction costs of the lines which you have assigned to that pool area, will have no further value?

A. Yes; that is right.

Q. And that assumes, does it not, that the lines in each of these pool areas will carry no gas other than that which you used in your computation for each particular pool area?

A. No; I wouldn't go that far, because in each case, if there is any doubt as to it—and this is what the engineers have told
3076 me—if there is any doubt as to the length of life as between various production areas through which a field line might operate, they have assigned that field line to the production area having the longest life that they can possibly determine.

Q. Mr. Dunn, that isn't responsive to my question at all. You are talking about lines outside of pool areas.

A. No.

Q. We haven't come to that yet. Now what I want to know is this: Isn't it a fact that you have assumed that when these gas reserves which somebody gave you, by pool areas, or which you converted into actual reserves by this 70 percent factor, is gone for each pool area, that the construction costs capitalized of field lines and rights-of-way of the lines in that pool area, will never serve any other purpose?

A. I think that that is generally true.

Q. That is a necessary assumption in your calculations, is it not?

A. Yes; that is right.

Q. Now are you taking responsibility for the accuracy of that assumption which is inherent in your calculations, or is somebody in the engineering staff doing that?

A. Well, I suppose the responsibility is on anybody making use of those figures; partly on me, partly on them. I would be
3077 glad to assume responsibility for the fact that when gas is gone, the field lines won't transport any more.

Q. That is all you know about it, however, isn't it?

A. That is all.

Q. You have made no investigation of the actual operations of the Hope Company, have you?

A. No; I have not gone out and looked at them.

Q. And if I went to any particular pool area on Exhibit No. 41, which you say you are not familiar with, and asked you how the lines of the company in that pool area were actually operated, you wouldn[illegible] to tell me, would you?

A. No; I wouldn't be able to tell you that.

Q. Now, if it is a fact that some of the property which you list in any one of your pool areas, and deplete by your method, actually carries gas produced in one or more pool areas, your results are not accurate for that particular property, are they?

A. Yes; I think so, because that factor has been given consideration by the engineers, and I am informed——

Q. (Interposing.) Well, you think it has been given consideration by the engineers; isn't that what you are saying, Mr. Dunn?

* * *

3085 Q. Now isn't it also true, Mr. Dunn, that your method of calculation assumes that the existing lines which you
3086 have assigned to these pool areas would not help carry any gas from any additional wells drilled on operated acreage other than the wells drilled at December 31, 1938?

A. I think my method contemplates that there will be additional wells drilled.

Q. Well, did you——

A. (Interposing.) I fully expected that.

Q. Well, it is perfectly clear, is it not, Mr. Dunn, that in the total recoverable gas reserves that you used for a pool area, you did not include in that total any reserves from any additional wells that would be drilled on operated acreage after the end of 1938?

A. That is correct.

Q. Isn't it also true, Mr. Dunn, that your calculation assumes that these lines, which I described in the preceding question, will not help carry gas from any of these wells existing at December 31, when they are drilled deeper?

A. It certainly does not assume that.

Q. Well, Mr. Dunn, did you include in the total recoverable m. c. f. to which you applied your withdrawals, any gas at all for additional or deeper drilling of wells?

A. No; I explained this morning that when the wells are drilled deeper, those reserves, if any, will be added to the total recoverable gas at the time they are actually obtained.

3087 Q. We are not talking about wells, Mr. Dunn, we are talking about field lines.

A. I have used exactly the same rates on field lines, operated acreage, and leases, they are all in the same rates, and the recoverable reserves are determined by the wells themselves.

Q. And the fact is that the ratio of withdrawals by pool areas or depletion rates that you figured out for 1938, for example, assumes that that rate of withdrawal is a definite percentage of total recoverable reserves from the area, which do not include any reserves for additional drilling or deeper drilling; isn't that so?

A. That is so. There is very good reason for not including them.

Q. Well, the fact of the matter is that you also have not included, in your total recoverable reserves which you have used in your calculation, any of the gas which will be found in any of these pool areas by additional wells drilled on unoperated acreage; isn't that so?

A. Yes, sir; I have testified all the way through that the only gas reserves that I have used are the present existing wells as of December 31, 1938.

Q. And you also haven't included in your base figure, let us call it, your total recoverable reserves for pool areas, any gas that
3088 will be found in those areas in the future, or obtained in the future by additional wells that the company may purchase; isn't that also true?

A. Yes; that is absolutely true. I might add that it is highly desirable, in my theory and opinion, that such additional reserves not be added at this time.

Q. Well, the fact is that you have used a figure for total recoverable reserves from a pool area, and applied to that figure over the years the production, have you not?

A. I believe I explained that once before, that I used the recoverable reserves from the present existing wells as of December 31, 1938, and I have used the total production to date in connection with that reserve.

Q. And the figure for probable total recovery in m. c. f. by pool areas, which you used in your calculations, isn't the probable total recovery for that pool area at all, is it, as a matter of fact?

A. It is the probable total recovery of the present wells. As additional wells are purchased, if they are purchased, that additional reserve would be brought in, as it has been in the past, and the cost will be added in the year in which it was incurred, as it has been in the past; and depletion would be directly related then; the expense would be directly related to the cost in the year in which it was incurred.

Q. In other words, to apply your method, you have got to do something else than what you have done here, is that it,
3089 in the future?

A. No; I have just got to continue what I have done here.

Q. Well, Mr. Dunn, you have one of your pool areas in which you have fully depleted your line construction and rights-of-way, haven't you?

A. I believe there is one pool area where all the gas that was estimated has been withdrawn.

Q. And on your method there may be others, isn't that right?

A. Eventually there will be others.

Q. And that method assumes that the rights-of-way and lines in your one fully depleted pool area, which is Area 2-2, I believe, that assumes that they have no value, doesn't it?

A. That assumes merely this, that all the cost that has been capitalized has now been charged to operating expenses at the same time that all the gas was recovered from that pool area.

Q. Well, now, Mr. Dunn, that hasn't actually been charged to operating expenses, has it?

A. I am afraid that a great deal more than that has been charged to operating expenses.

Q. Well, now, what happens to Pool Area 2-2—where at least you have no value for that property—when an additional well is drilled in that pool area?

A. I am assuming that the additional well would find
3090 some gas?

Q. Oh, yes; surely.

A. Then the cost of that additional well would be written off over the gas that is obtained from it.

Q. And the fact of the matter is that if these present lines are used to help carry the gas from that additional well, you have overstated there the reserve they ought to have at the end of 1938, haven't you?

A. Possibly a little bit overstated it in the interests of conservative accounting.

Q. Now in that same pool area 2-2, Mr. Dunn, I think your work sheets show that although you had depreciated or depleted the rights-of-way and field lines down to zero, there was actually some additional production from the capitalized wells in that area during 1939; isn't that right?

A. If so, it would result in only a minor error in the total amount of gas recoverable; it might happen in any case.

Q. Well, the fact is that your 100-percent depletion reserve as of December 31, 1938, was not accurate; isn't that so?

A. I have never pretended that this depletion reserve is absolutely accurate, because it is based on an estimate, and to the extent that an estimate is slightly off in the final analysis, may throw the reserve off a little bit.

3091 Q. Well, isn't that just the point, Mr. Dunn, that you have used, for determining field lines and rights-of-way, probable total recoveries in m. c. f. for pool areas which do not take into consideration any additional gas that will be discovered, or anything of that sort, additional purchases, and so on?

A. Yes; my method contemplates writing off present existing property over present existing gas reserves, and if additional gas reserves are added, additional costs naturally are incurred, and they will be considered at their proper time, not before then.

Q. Well, Mr. Dunn, isn't that also another point in your assump-

tion—you have just assumed that the present existing property—and when I say "you" I mean nothing personal. I mean that your calculations assume—that the present existing property, as you set it up, will not help carry or produce any of the additional gas supplies which the company will develop in these various production areas?

A. No; that isn't necessarily true.

Q. You don't think that that is necessarily true in your figures?

A. Why, I am sure that it isn't, because it is obvious that a great many of these pools, not being fully depleted, we have added reserves which tend to extend or lower the rate, and they continue in operation.

3092 Q. Well, you have just assumed, though, in these figures, where you are trying to arrive at a depletion reserve as of December 31, 1938, that these rights-of-way and lines that we are talking about now, will not carry any gas other than the reserves remaining in the present drilled wells as of December 31, 1938; isn't that so?

A. No; that is not so.

Q. Well, what reserves did you use in your calculations, what recoverable reserves did you include in your calculations?

A. The recoverable reserves at the beginning of each and every year, from the beginning of operation of the company to and including 1938.

Q. And excluding in your calculations any reserves that will be added by additional drilling, deeper drilling, and additional purchases after 1938; isn't that so?

A. Excluding such reserves and any such costs incurred in connection therewith.

Mr. Springer. He has answered a similar question three times.

Trial Examiner. Yes; I agree with you. I think we have gone over that three or four times already, and it should be clear by this time.

By Mr. Milde:

Q. Was it your thought, Mr. Dunn, that when the existing field lines of the company were laid, they were installed
3093 with the idea of merely carrying the gas which the company had discovered up to December 31, 1938?

Mr. Springer. I object. That is really an operating question.

Trial Examiner. Well, I think as it is worded, it is. The objection is sustained.

By Mr. Milde:

Q. Well, did you assume in making your calculations, Mr. Dunn, that that was the situation?

A. No; I assumed that they would carry gas as long as there was any gas for them to transport.

Trial Examiner. You didn't assume any conditions which might arise subsequent to that date, though, did you?

The Witness. Well, I let those conditions be applied in the year in which they occurred.

By Mr. Milde:

Q. Well, you haven't given any consideration at all, have you, in your figures for December 31, 1938, to additional gas discoveries in 1939 and 1940?

Mr. Springer. That is the fifth time, Mr. Examiner, the same question for the fifth time. I think half a dozen ought to be the limit.

Trial Examiner. Objection sustained.

By Mr. Milde:

Q. Now, Mr. Dunn, suppose you were doing this job of
3094 yours as of December 31, 1940; would you then, in your figures for probable total recoveries in m. c. f. for these various pool areas, include the additional discoveries that the company made in 1939 and 1940?

A. Yes, sir.

Q. And isn't it a fact that as to any of your pool areas, where substantial additional discoveries or purchases were made, your probable total recovery in m. c. f. would necessarily be higher than as of December 31, 1938?

A. I don't believe it would change. The way I would compute 1941 is just add 1939 transactions onto it and 1940 transactions, and come to the answer at the end of 1940, just continue from 1938 on.

Q. I am just asking you, if you did this job as of December 31, 1940, just the way you did it as of December 31, 1938, then, in any of your pool areas where the company had discovered substantial additional reserves, or had purchased substantial additional reserves, you would have, as one of your figures, would you not, a larger probable total recovery for that pool area—we are clear that far, are we not?

A. I believe so.

Q. You would have a larger figure?

A. That is right.

TRIAL EXAMINER. You just assume that you would, don't you, you don't know whether you would or not?

3095 Mr. MILDE. I said if the company discovered the additional gas.

TRIAL EXAMINER. Well, that, it seems to me, is an engineering question, there might be other things that entered into it. However, if the witness thinks he can answer the question, he may go ahead.

Mr. MILDE. Well, I think he has answered it.

By Mr. MILDE:

Q. That figure would be larger than what you had for 1938 on these assumptions I have given you?

A. If you had more reserves, you would get a larger figure, that is sure.

Q. Now isn't it a fact that if you took that figure and worked this computation back over the years, just as you have actually done it for the period up to 1938, that your depletion reserve as of December 31, 1938, would be different than what you show here?

A. If I used different figures, I would get a different answer, I suppose.

Q. And isn't it a fact, and necessarily true, that if you made this calculation as we have described it, as of December 31, 1940, your depletion reserve for this pool area, this hypothetical pool area we have been talking about, would be substantially lower for December 31, 1938, than the one you show by working your figures up only to 1938?

3096 A. That is not true.

Q. You say that is not true?

A. That is not true; they would not be substantially lower.

Q. Would it be lower at all?

A. There might be some very slight difference, I couldn't say, not having computed the figures you have in mind, but there would be no substantial difference whatsoever.

Q. And your testimony is that it would not be lower?

A. Substantially lower.

Q. What do you mean by "substantially"?

A. You used the word, I mean the same thing you meant.

Q. You say it would be lower, but you are not sure it would be substantially lower; is that your testimony?

A. Of course, I might rescind the entire answer and say that to get more gas reserves you might require considerably more expense, and it might change the entire set-up. I don't know how it would affect that. In each particular change in pools, there is a change three ways, there is a change in cost both by additions and retirements, a change in production, and a change in the ultimate recovery or the remaining reserves, and all of those would affect the answer.

Q. Well, on the case we were assuming, Mr. Dunn, what are all these additional costs, and so on; isn't it a fact that we
3097 have assumed you have got the same pool area and the same wells that you had in 1938 except that you have now gotten some additional gas reserves in 1939 and 1940? We don't change any of the figures back of 1938 in our assumption.

A. My understanding of this method is that in order to get additional reserves, you must drill more wells or acquire more acreage. That would represent a change in cost.

Q. Well, did you understand my question, Mr. Dunn, that I was asking you whether, if you redetermined these figures for this pool area that we have been talking about, whether your reserve as of December 31, 1938, would not be different than if you had computed it on your method only up to December 31, 1938?

Mr. Springer. I object again to the question and answer. It is the same question over and over again, and he has already answered that question.

Trial Examiner. Read the question, please.

(The question was read by the reporter.)

Mr. Springer. He has already answered that, Mr. Examiner.

Trial Examiner. I am not sure that I understand the question, so I don't know whether he has answered it before or not. The objection is overruled.

The Witness. Due to the fact that all the underlying conditions might change, I do not know what the result would be.

By Mr. Milde:

3098 Q. Now, Mr. Dunn, in the case of your depletion computation for gas well construction, you charged against your hypothetical depreciation reserve, as you were calculating it, the wells that had been retired, did you not, in the year in which they were retired?

A. That is correct.

Q. And you did that by individual pool areas?

A. Yes.

Q. That is, you analyzed what had happened actually as shown by the books for these various areas which you have labeled "pool areas"?

A. Production areas.

Q. Now you didn't do this in the case of retirements of field lines, did you?

A. I did not. My answer might be misunderstood. I did charge all the loss on retirements of field lines to the accumulated reserve, but I did not assign them to pool areas.

Q. Now will you point to the page in your Exhibit 61 where you worked that out?

A. What page?

Q. I am asking you what page it is.

A. Where I worked it out or where I set it out?

Q. Set it out, referring to lines—isn't that on page 29?

A. That is correct.

3099 Q. And isn't it shown under your heading "Property Retired"?

A. That is correct.

Q. Now is that a correct statement of what you did, Mr. Dunn, you took field line and right-of-way retirements which had occurred in the past all over the company's system, and found that they were $695,000 as shown in your last figure on column (ff)?

A. That is correct.

Q. Now actually, those retirements occurred in various ones of your production areas, did they not?

A. At least the large part of them must have.

Q. Well, didn't all of them?

A. There might be lines to individual wells outside of production areas, there are many purposes of field lines.

Q. Now isn't it a fact that if you had charged these retirements against your depletion reserves for your individual pool areas, that you would have had a lower adjusted depletion reserve as of December 31, 1938, than you have now?

A. I believe the tendency would, in that case, have been to lower the reserve, and also lower the expense in those particular years, lower the expense and likewise lower the reserve somewhat. Of course, it is utterly impractical to do such a thing, there are about 12,000 of these lines.

Q. And because it was impractical, you say you didn't

3100 do it?

A. That is right.

Q. Although it would have resulted in a lower depletion reserve than what you show?

A. Possibly a slightly lower one.

Q. Well, now, what caused that impracticality, Mr. Dunn?

A. The great number of field lines involved.

* * *

3101 Q. As I understand the situation, if you had charged retirements in the past against the pool areas in the case of field line construction and rights-of-way, as you did wells, you would have arrived at a somewhat lower depletion reserve as of December 31, 1938?

3102 A. I would have arrived at a somewhat lower annual expense and a somewhat lower depletion reserve, somewhat.

Q. You mean an annual expense all the way back to 1898?

A. Including the years under consideration now and all prior years.

* * *

Trial Examiner. Did you testify that you would have gotten a more correct answer had you broken it down into pool areas?

The Witness. I believe a little bit more correct answer.

Trial Examiner. And the reason you didn't do that is because it wasn't practical?

The Witness. Yes; I gave very careful consideration to
3103 the problem of breaking it down by pool areas, and in view of the actual conditions it would have required a great amount of time. This is a very small amount of money involved in relation to the total here, and the amount of time involved would have been entirely disproportionate to any answer that would be possibly changed. It is an utterly minor point.

* * *

Q. Referring to page 28 of your exhibit, I notice that you lump your depletion figures prior to 1913 all in one group, isn't that so?

A. That is correct; we did that.

Q. And isn't it a fact that what you did was to take the capitalized costs that existed in 1913 for Rights-of-Way and Field Line Construction, and applied to that the ratio of withdrawals from 1898 up to 1913 in one lump figure as applied to the reserves for that period?

A. Yes; we treated the period 1913 back to 1898 just as if it were one year, instead of many years.

Q. Now, that method of treatment necessarily assumes, does it not, that the property in existence in 1913 had helped carry gas from various production areas right from 1898 on,
3104 or whenever the first production began in each area?

A. Well, I wouldn't say that, because this is strictly on a unit of production, and has little reference to years, back in those early days especially.

Q. Well, suppose a line was installed, a field line, in 1912; you apply something like a 90 percent depletion factor to that line, don't you, in your 1913 figures?

A. If it happened to be in a production area of which there was one that in 1913, 90 percent of the gas had been withdrawn, 90 percent of the cost was written off in 1913.

Q. So that line which I have been talking about, installed in 1912, you would write down on the assumption, would you not, that it had helped carry gas right from the beginning of the gas producing operations of the particular area?

A. It was on a unit-of-production method, and it so happens that it covered a period of 13 years, and possibly you could draw such an inference. I don't know that I had to assume that. I mean, if that much gas had been drawn in one year, I would have gotten exactly the same answer as if it had been drawn in 13 years.

Q. Well, Mr. Dunn, it isn't very accurate, really, is it, to lump all the years from 1898 to 1913?

A. I wouldn't have done it if I could have avoided it, but that is one of the characteristics of this company, that no gas
3105 was metered or calculated, prior to 1913, as far as I know.

Q. That is as far as you know?

A. Yes.

Q. You made no investigation to ascertain, I assume, whether or not the right-of-way and field line costs which you started with in 1913 had actually been installed right from the beginning of the gas producing activities, did you?

A. Oh, we actually had the figures before us by years from the inception of the company, so I knew exactly when all costs were incurred.

Q. So that you do know that a substantial portion of the right-of-way and field line investment was not made in 1898 when production activities first occurred, but was scattered throughout the years right up to 1913, don't you?

A. They were scattered, that is correct.

Q. Let me ask you, Mr. Dunn, if, in your computation also, you didn't use the costs as you set them up for January 1 of each year, to apply a depletion rate?

A. That is merely a mathematical computation. On depreciation we use average costs. Here it would be absolutely incorrect to use that, because we take the remaining costs over the remaining reserves, and we take the costs at December 31, less the amount accumulated, before any provision is made during the current year, and apply it. That is mathematically correct—any other method would be wrong.

3106 Q. Well, isn't it a fact that you assume, in that method, that property installed at any time during the year has helped carry gas from the first of the year?

A. Time doesn't play much of a part in this, as such; it is the amount of production that is really important.

Q. I am asking you whether that isn't an assumption inherent in your method?

A. If I was getting cost by months, for instance, I would take the amount that I computed at the end of the year, and divide it by 12, and I would get the amount of depletion expense each month.

Q. Can't you answer my question, Mr. Dunn?

Trial Examiner. Just what did you do here?

The Witness. Oh, I took the balance of the investment account at the end of the year, less the accumulated reserve as at the end of the year, but before current provisions were made, and that is the amount I applied the rate to.

By Mr. Milde:

Q. And that includes, does it not, moneys that the company has spent in the summer and fall when it was building lines?

A. That includes both additions and retirements during the year.

3107 Q. Now I notice that on your table here on page 28, in line 34, you have an item of "Reserves Acquired" in the amount of $136,000.

A. Yes, sir.

Q. Now as I understand it, what you have done on these accounts is to compute what I would call a hypothetical depletion reserve of $2,992,000, and then you add to that the reserves acquired; is that right?

A. The $2,992,000 is the sum of the annual provisions to expense, that is what would be charged to expenses, and there is an

amount of $136,000 which is reserves acquired, as you have stated, added to that.

Q. Well, now, that increased your depletion reserve by $136,000 over your other calculations; isn't that so?

A. That is correct.

Q. Now that is the reserves that the Hope Company acquired or put on its books, is it not, in connection with the rights-of-way and field lines purchased by it from other companies?

A. Yes; the one company, the Clarksburg Light & Heat.

Q. And by adding it to your reserves, you have assumed, have you not, that the reserves that the Clarksburg Light & Heat Company had set up, and which Hope in turn set up on its books, correctly measured the depletion in those acquired lines as of the date of the purchase?

A. Yes; I think that that is a very correct figure as to the depletion existing in those lines as at that date.

3108 Q. Well, did you make any investigation of that, Mr. Dunn?

A. You mean recomputing the reserves set up by Clarksburg Light & Heat?

Q. I am asking whether you made any investigation as to whether that inherited depletion reserve correctly measured the depletion on your theory, of the properties acquired by the Hope Company from Clarksburg Light & Heat.

A. There was no investigation required on my part; I knew it did.

Q. Your theory is whatever the Clarksburg Light & Heat Company set up on its books for a reserve in connection with field lines and was transferred to the Hope's reserves, correctly measured the depletion of the properties purchased by Hope, is that right?

A. Yes; this is entirely a cost transaction as of 1929.

Q. What you do in effect there, Mr. Dunn, is to put into your accounts here, merely the purchase price which Hope paid for those properties?

A. Yes, sir; Hope's plant cost and reserves are stated on a cost basis.

Q. So that for field lines and rights of way purchased by Hope from Clarksburg Light & Heat Company, and in
3109 existence at December 31, 1938, you have the purchase price less any depletion figures in respect to that purchase price

which might be included in your figures from 1929. on; is that not so?

* * *

A. I do not have anything less than the purchase price; I have the original cost less reserves, which equals the purchase price.

Q. You have depleted that property since then in your figures from the time when the Hope Company took over these properties, have you not?

A. That is right. All of those figures equal the purchase price in 1929, and subsequent to that I have depleted them the same as any other property of Hope.

Q. So what you have finally is the depleted purchase price in your final figure?

A. That is correct.

Q. I notice on this table which we have been referring to, subschedule No. 2-b, on page 29, that you deal with what you call individual wells and marketing lines and purchasing lines in columns CC, DD, and EE. What is the fact as to your treatment of individual wells?

A. That means lines to individual wells and there is not
3110 a terrific amount of cost involved here, and rather than deplete each one of them separately on the basis of the estimated gas reserves for each individual well, I have grouped them and depleted them on the basis of the total gas reserves of these individual wells and the total production of these individual wells.

Q. How many individual wells are there?

A. There are quite a few. I believe there are 75 or 80, and maybe there are more than that.

Q. There are well over 100 of them, are there not?

A. That is probably true. It may be there are as many as 175.

Q. And you added up the reserves and production figures for all of those individual wells and considered them as a whole?

A. Yes.

Q. And they are scattered all over West Virginia, are they not?

A. I Believe they are.

Q. And you could have done that same thing for all of the 772 wells, could you not?

A. No; I did not have the individual reserves computed for each well, unless they were just labeled individual wells.

Q. But if someone furnished you that information you
3111 could have handled all of the 772 in that same way, could you not?

A. I could have; yes.

Q. What is your treatment of marketing lines, and just what are they?

A. That is a figure that was furnished me by the engineering division, and I believe they could answer what they are better than I could.

Q. Do you know what that phrase means?

A. They tell me they are lines used to market gas locally; little sales lines right out in the field.

Q. But apart from what they may have said about it, you do not know what they are or where they are?

A. No.

Q. Or what use they are put to?

A. No. I just have their word for it.

Q. How did you handle that particular classification, Mr. Dunn?

A. That small amount of cost is written off over all gas produced and all reserves from present existing wells as of December 31, 1938.

Q. And that method assumes, does it not, Mr. Dunn, that the company will not develop any additional reserves by additional drilling or purchases after December 31, 1938, in order to put gas through these marketing lines?

A. No; I do not believe it assumes that.

3112 Q. Well, in your calculation, you base it on the probable total recovery of gas for the company's whole system, merely up to its gas development activities as they were made prior to December 31, 1938, have you not?

A. Yes, sir. I might say I would have the choice of either using the December 31, 1938, figure or the total recoverable gas, we will say, from deeper drilling, and on an operated acreage, and all of the other figures, but in the interest of conservative accounting, inasmuch as this gas may never be recovered or it may be deemed not worth while to get it, I wrote it off over the costs known to be incurred and the reserves known to be subject to recovery. It would be stretching your imagination a little bit to include all of the other costs.

Q. Your theory is that just as a matter of conservative accounting the company ought to write off its property rapidly, I take it?

A. If there is any choice between conservative and nonconservative figures, I would certainly pick the conservative figure.

Q. Actually, Mr. Dunn, this depletion reserve for marketing nes and so on, does not purport to measure the exhaustion of the ervice life of those marketing lines, does it?

A. I think it measures it very closely. The chances
113 are, I am informed by the engineers and geologists, that when all of the gas has gone out of West Virginia, or even ut of the present existing wells, there will be little, if any, use or these local marketing lines. The amount is insignificant. I lo not know what would happen if we used some other method.

Q. And if the engineers are wrong about that, of course you are vrong?

A. Yes; I would change it if I had any better information.

Q. And what you have just said now is all of the gas in West Virginia—you did not use the ratio of Hope's production to all of the gas in West Virginia or even all of the gas that Hope will recover in West Virginia, in working your depletion of these lines, lid you?

A. I understand that a ratio does not necessarily have to be higher or lower by using all of the gas in West Virginia. This is a ratio and is not necessarily higher or lower by reason of some change.

Q. Mr. Dunn, you can answer my question. Will you read it, Mr. Reporter?

(Question read.)

A. No; I did not use all of the gas in West Virginia.

Q. Now, your next item is purchasing lines; what are they?

3114 A. They were set up by the bureau of engineering; I did not select them at all.

Q. You do not know what they are?

A. I have been told what they are; do you want me to state that?

Q. Yes.

A. These are little local lines running out to the various purchase gas contract lines.

Q. That is what you understood when you put that phrase down?

A. That is what I was informed.

Q. How did you handle purchasing lines?

A. In exactly the same manner as marketing lines.

Q. You assumed then, did you not, Mr. Dunn, in handling them in that way, that the gas reserves of the company's 340 contract vendors, collectively or individually, were being depleted

in the same ratio that Hope's 1938 gas reserves were being depleted?

A. I was informed by the engineers that that was substantially true.

Q. And who informed you of that, Mr. Dunn?

A. I believe several of the engineering staff informed me.

Q. Will you state their names, please?

A. I am sure I consulted with Mr. French on it.

3115 Q. Mr. French told you that the gas reserves of the company's contract vendors, their over-all gas reserves, were being depleted in the ratio of Hope's production to Hope's 1938 reserves?

A. Not in exact ratio, but there is a relationship there.

Q. But you have used this relationship on Mr. French's statement to you?

A. Yes.

Q. You assumed it was the same?

A. I would assume it would make no material difference because there is only a very little amount of money involved.

Q. You think every time there is a little amount of money involved it does not make much difference whether your figures are accurate or inaccurate?

A. There is always the problem to consider whether an enormous amount of work is justified by the results obtained from it.

Q. That means you used a good many short-cuts here to get your final figures, I assume?

A. It looks like about three short-cuts in this case involving not over $400,000 over a period of many years.

Q. You mean $400,000 in depletion reserves?

3116 A. In plant cost.

Q. Which you deduct in your depletion reserve?

A. Gross.

Q. Now, Mr. Dunn, refer back to your schedule No. 2 on page 25 with which you started.

Trial Examiner. Off the record.

(Discussion off the record.)

By Mr. Milde:

Q. You show in your column headed "C," operated acreage.

A. What page?

Q. 25.

A. Yes.

Q. Did you use the same methods we have discussed in connection with field lines and rights-of-way in working out your figures for operated acreage?

A. Yes; the same rates were used.

Q. The same methods?

A. Yes.

Q. You have an adjusted book cost of about $1,600,000 in line 5, and that is the consideration paid for the leases; is it not?

A. Yes; that is the original cost as of December 31, 1938.

Q. That is the dollar or two an acre which was paid
3117 to land owners?

A. In some cases it is considerably more than that.

Q. Is it not also true in working out your figures on operated acreage you also used your pool area method?

A. That is true.

Q. In connection with retirements of leases, you did not charge them by pool areas; did you?

A. No; that is true; I did not.

Q. You handled those just like the retirements we talked about in connection with field lines and rights-of-way?

A. That is true.

Q. And your same general statements as to the reasons and the effect of that method as applied to field lines and rights-of-way costs would apply here; would they not?

A. That is true.

Q. In addition to your adjusted depletion reserves, you develop in this exhibit the depletion allowances for 1937 and 1938, which appear in the income accounts as presented in other exhibits?

A. Yes; they are directly related.

Q. And the amounts of money you have set out in schedule No. 4 on page 23, for example, for 1937 and 1938, are the result of the application of these rates to the cost in each of those years; is that not so?

3118 A. Yes.

Q. And those are the same rates which your used to develop the depletion reserve?

A. Yes, sir.

Q. And all of the assumptions we have talked about in connection with your determination of depletion reserves and other matters apply to your determination of depletion rates; they are one and the same thing, being correlative?

A. That is true. If we lower the reserve, we lower the annual expense, and if we raise the reserve we automatically raise the annual expense.

Q. And these annual depletion rates are all based on this information which was supplied to you in connection with determining depletion reserves, the information supplied you by engineers, and so on; it is the same subject, is it not?

A. Yes.

* * *

3123 Cross-examination by Mr. Reeder:

Q. Mr. Dunn, I believe you testified that in your opinion if you had used the method suggested by Mr. Milde, it would have been generally unfavorable to the company for rate-making purposes: is that right?

* * *

The Witness. I do not believe I could state it in the exact dollars and cents, but I do believe that it would have created a higher reserve which would tend to be unfavorable in rate-making
3124 proceedings, leaving less net book cost.

By Mr. Reeder:

Q. It would have resulted in a higher or lower annual allowance for depletion?

A. I believe it would have resulted in a lower annual allowance for depletion.

Mr. Reeder. That is all.

* * *

3621 Cross-examination (continued) by Mr. Milde:

Q. Mr. Dunn, isn't it a fact that on December 31, 1938, the Company had, according to your figures, 3,262 active gas wells in service?

A. I believe that is the figure. Do you want me to check it exactly?

Q. Yes; if you will.

A. Yes; I have the figure of 3,261, I believe. I got that by adding up the number of wells in which well equipment was capitalized.

Q. 3,261?

A. Yes, sir.

Q. Isn't it a fact that of these wells, there were some drilled each year back from 1938 all the way to 1891?

A. That is correct.

Q. And of the wells drilled prior to 1903, that are now in service, those were wells purchased by the Hope Company after they had been drilled by other parties; isn't that so?

A. Well, I would have to check on that particular point, I don't recall.

Q. Well, you know that the Hope Company first began to drill wells itself in 1903, don't you?

3622 A. No; I never have made any particular study of that, of when.

Q. You didn't determine that that was so in connection with your analysis of original cost data?

A. Oh, yes; it is in the work papers, the date every well was drilled is in there.

Q. And you just don't recollect that now?

A. That is right.

Q. Do you know when the Hope Company first began to abandon wells?

A. That was also included in the work papers.

Q. Can you determine it readily from your working papers?

A. I think so; yes.

Q. Suppose you tell us?

A. Oh, not that readily. It would require maybe several hours.

Q. Well, isn't it a fact, Mr. Dunn, that right from the beginning of the Company's operations to the end of 1922, the Company charged the cost of abandoning wells to operating expenses as the wells were abandoned?

A. Yes; I think that is absolutely a fact.

Q. They were charged to an account called Field Lines and Wells, Account 17, Operating Wells and Field Lines; isn't that so?

A. I would have to check on the exact account; I don't
3623 recall.

Q. Now, isn't it a further fact that under the 1921 West Virginia Public Service Commission Uniform Classification of Accounts, that became applicable to the Company in 1923, the cost of abandoning wells was required to be charged to operating expenses?

A. I believe they have an account in there.

Q. And that in accordance with this Classification, the Company continued to charge well abandoning costs to operating expenses as wells were abandoned?

A. Yes, sir.

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Q. And that is true as a direct charge to operating expenses up through 1931; is it not?

A. That is right.

Q. And then in 1932, the Company made a charge in effect to operating expenses directly, did it not, by setting up a reserve each year for the anticipated abandoning costs, and then when the actual costs were known, charging that to the reserve and wiping out this year by year accrual?

A. That is right, the reserve is in effect a charge to operating expenses.

Q. So that, right from the beginning up until 1938, the Company has charged the cost of abandoning wells, as they were abondoned, to operating expenses?

A. Yes, sir.

3624 Q. And that was recognized as good accounting practice in the industry, was it not?

A. Certainly. It might still be recognized as good accounting practice: in other words, if there is no provision in the reserve for cost of removal, cost of removal is an expense.

Q. Now will you turn to your Schedule No. 2 on page 25 of Exhibit No. 61? You recall, do you not, Mr. Dunn, that at the last session we discussed columns (c), (d), and (e) on Schedule No. 2, which were the columns that showed the results of your depletion provisions for Operated Acreage, Field Line Right-of-Way and Construction Cost, and Gas Well Construction?

A. I do.

Q. And we had not reached Column (f), which is entitled "Cost of Abandoning Gas Wells." And there you show, do you not, at the bottom of your column, in line 33, total annual accruals to December 31, 1938, of $2,100,000?

A. That is correct.

Q. Now isn't it a fact, Mr. Dunn, that the details for this determination are shown on your Schedule No. 2D, at pages 32 and 33?

A. That subschedule shows the details of cost of abandoning gas wells by production areas.

Q. And the column (b), as it appears on page 32, is the one that you subsequently transferred to column (f) on
3625 Schedule No. 2 at page 25, isn't that so?

A. Yes, sir; that is correct.

Q. Now referring to page 32, your first line is, or your first group of lines appear under the heading "Cost Subject to Depletion," do they not?

A. Yes, sir.

Q. And here they are shown as blank?

A. That is correct.

Q. And the fact is that you aren't depleting any costs at all in this instance, are you?

A. We are not depleting any invested cost.

Q. You are not depleting any costs, are you?

A. This is strictly a provision for cost of abandoning in the future, and is not incurred today.

Q. That is right, this isn't really a depletion allowance at all, is it?

A. In the terms of depletion being applied to invested capital; no, it is not.

Q. Or applied to any amount of money; you have nothing to deplete here, have you?

A. No; as I explained, it is exactly what it is labeled, the cost of abandoning gas wells in the future.

Q. There is an accrual, or a hypothetical accrual, of a fund to take care of future operating costs or abandoning costs; isn't that so?

3626 A. Well, I believe I just said it was an accrual to take care of the future cost of abandoning gas well, determined as explained under column (a).

Q. Now as you worked that out, Mr. Dunn, you find under line 5 that the expense for the cost of abandoning gas wells, computed for each active gas well at December 31, 1938, at $1,007 per well, will be $3,285,131; isn't that so, as shown in column B?

A. Yes.

Q. And that is your estimate, or the estimate of yourself and Mr. French, of what it will cost the Company to abandon the 3,261 active gas wells that were in existence at December 31, 1938, and which you classified as then in service?

A. That is right.

Q. Now the fact is, is it not, Mr. Dunn, that in the past the Company has not set aside any funds for these future abandonment costs of these existing wells, but has, on the contrary, followed the practice of charging well-abandonment costs to operating expenses as wells were abandoned?

A. That is correct. The first part of your sentence—I might add, there are no funds earmarked for this specific purpose. I won't go so far as to say that they have not set aside funds for this purpose.

Q. You didn't find any set aside on the books, did you, by way of any reserve?

3627 A. No; I didn't find any specific reserve for this particular point; no.

Q. Now this set-up of yours, Mr. Dunn, reflects a shift, does it not, in accounting policy or procedure or requirement?

A. Well, it represents a change, I suppose, in the method of handling cost of abandoning gas wells, certainly.

Q. Heretofore, the cost of abandoning wells has been charged to operating expenses as wells were abandoned?

A. Yes.

Q. And you recognize, do you not, that if that practice is followed consistently, that that produces a fair and equitable result?

A. Yes; it produces a fair result. It may produce a very distorted picture of operating expenses in the future, however; if you start having an abandonment cost of over $3,000,000 that should be charged into operating expenses, it might produce a pretty heavy charge against operating expenses in the future. It should be provided for now.

Q. It hasn't had that effect in the last 40 years, has it, Mr. Dunn?

A. No; there have not been great numbers of gas wells abandoned during the past 40 years.

Q. Why, Mr. Dunn, you know, do you not, that there have been over 2,000, or close to 3,000 gas wells abandoned by the Company?

3628 A. Well, over a period of 40 years; yes.

Q. And what you say about some distorted result is just on the assumption that the history in the future will not be the same as the history of the Company in the past?

A. Well, it is based on the fact that these wells will probably be abandoned more frequently in the future than they have been in the past. That is one assumption.

Q. Well, a well is abandoned only once, isn't it, Mr. Dunn?

A. Certainly.

Q. And the fact is, you don't know what the result will be in the future unless you can predict the history of the Company's production system and predict that it will be different in the future than it has been in the past?

A. Well, I think certain future predictions have been made of the Company's future production, and they are in the record, and the geologists estimate the future gas reserves.

Q. Well, all I want to get perfectly clear, Mr. Dunn, is that here the Company, right up until 1938, has been following one system of taking care of this cost, which is to charge well abandoning costs to operating expenses as the wells are actually abandoned. That is true, is it not?

A. Yes; although they probably, at 1932, foresaw the need of some kind of a reserve accounting.

Q. And what you have done here is to set up an accrual
3629 on a different theory, isn't that so?

A. Yes; absolutely.

Q. A completely different theory. Your theory is here that the Company should have accrued a reserve in the past to take care of the abandoning costs of the present existing wells?

A. That is correct.

Q. And it is a sort of a hypothetical accrual, is it not, Mr. Dunn, which you have developed by taking the production of all of the Company's wells in the past, plus the reserves of the existing wells, and you have determined on the ratio of this production to these total reserves, that the Company should have set up a total of $2,107,000, isn't that approximately what you did?

A. Well, when you say "sort of hypothetical," I think this is a very real cost. As I understand the law in West Virginia, you are required to spend about $107,000 as an average cost per well in the future when you abandon that well. I think it is a very real cost and expense.

Mr. Slaff. Did you mean $1,007 in your last answer? You said $107,000.

The Witness. Yes; $1,007.

By Mr. Milde:

Q. Of course this is a very real cost, and we both agree that in the future the Company will have to spend about
3630 $3,285,000 of cash to abandon its present existing wells?

A. I fully expect that they will; yes.

Q. And there isn't any doubt about it that that is coming right out of the Company's pockets, isn't that so?

A. Any estimate in the future might be in some slight doubt, but this seemed to be about as real a figure as we could develop.

Q. It represents real dollars the Company has to spend?

A. I think so.

Q. That isn't what I asked you before, Mr. Dunn. I asked you whether it wasn't a fact that you have got a hypothetical accrual, which assumes that in the past the Company has set aside $2,107,000 towards this future cost?

Mr. SLAFF. That was answered, Mr. Examiner. I object to the question, because it has been answered just previously.

TRIAL EXAMINER. Well, he stated that he didn't consider it a hypothetical matter.

Mr. SLAFF. That is right, he answered it completely.

Mr. MILDE. Well, you don't understand it. May I have the question read again?

(The question was read by the reporter.)

TRIAL EXAMINER. Go ahead and answer the question.

The WITNESS. I don't understand the difference between accrual and hypothetical accrual, but I will answer in terms of ac-
3631 crual in the past, which I will say, as I already said once, that the Company did not provide a specific reserve in the past earmarked for this particular purpose. However, the Company in the past has provided a great deal of reserve which is available for any purpose, and not earmarked for any particular item.

By Mr. MILDE:

Q. This isn't any sort of a depreciation allowance, is it, Mr. Dunn; this is something different; this is merely an accrual for future operating expenses?

A. It operates exactly the same as a depreciation allowance.

Q. And you haven't found anywhere that the Company at any time set aside any funds for the cost of abandoning property in the future?

A. They have a great deal of reserve available for that purpose.

Q. That isn't what I asked you.

Mr. SLAFF. The question has been asked three times and answered three times by the witness.

TRIAL EXAMINER. Yes; I think he has already stated that a couple of times.

By Mr. MILDE:

Q. What have you already stated?

Mr. SLAFF. I object to that. If counsel wants to know what has been stated, he can have the reporter read back the
3632 record to him, and I am willing to have him do that.

TRIAL EXAMINER. He stated that he didn't find any funds earmarked for that purpose.

Mr. MILDE. That is what I understood, and I thought he was trying to modify that answer, and I want it perfectly clear that there was no modification of that.

By Mr. MILDE:

Q. Now, actually, Mr. Dunn, it would have been completely impossible for the Company to have set aside an accrual for these future abandoning costs in the amounts that you have shown here, would it not?

A. By no means would it have been impossible.

Q. Well, in the first place, Mr. Dunn, the Company would have had to know, back in 1898 or thereabouts, that in 1938, or the end of 1938, there was going to be a different accounting system which shifted the theory of handling well abandonment costs, wouldn't it?

A. Well, this isn't particularly a different accounting theory, this is done quite often. I understand that the Company was very familiar with depreciation accounting and depletion accounting back in 1898. There are many letters on file to show that they understood it practically as well then as they do today.

Mr. MILDE. Will you please read the last question, Mr. Reporter?

3633 (The question was read by the reporter.)

By Mr. MILDE:

Q. Now, can you answer that question?

Mr. SLAFF. Let's have the answer read, too.

TRIAL EXAMINER. Read the answer.

(The answer was read by the reporter.)

Mr. SLAFF. It is perfectly answered. He said there is nothing different about it.

TRIAL EXAMINER. You mean that a new system has not been instituted as suggested by the question?

Mr. SLAFF. That is my understanding of the answer, yes; no new principle. What he is saying is that the assumption that counsel is making in his question just doesn't exist as a matter of fact, that is all.

TRIAL EXAMINER. Is that what you mean to say?

The WITNESS. Well, yes; if I understand his question, he assumed that by some action of possibly a regulatory body or some new theory of accounting, that a condition exists today that didn't exist then in accounting, and I say not.

By Mr. Milde:

Q. Well, Mr. Dunn, the question I started with is this, and I think you agreed with me—if not, you can so state: that as a matter of practice, the Company couldn't possibly have set aside in the past this hypothetical accrual of yours in the total amount of $2,100,000; isn't that so?

3634 A. It couldn't possibly have set it aside?

Q. In the amount that you there show.

Mr. Springer. I object to that. The Company has shown a depreciation accrual that is excessive here, of $40,000,000, on its books to cover all possible losses.

* * *

The Witness. Well, I think probably this would happen as a practical matter: if the Company had been setting aside a reserve for abandoning based on production, it would be approximately this amount, maybe not to the dollar.

By Mr. Milde:

Q. Well, Mr. Dunn, the fact of the matter is that the Company couldn't have set it aside, the Company couldn't have set aside an accrual for abandoning wells that it would have in 1938, and also continue what was then the accepted and required accounting practice of charging well-abandoning costs to operating

3635 expenses as the abandoning costs were incurred; isn't that so?

A. Oh, well, you have presented me with two alternatives, they either do one or the other.

Q. And they followed the alternative of charging well-abandoning costs to operating expenses as they occurred?

A. That is what they actually did; yes.

Q. That is right. And following that alternative, they couldn't possibly, as a practical matter, have also accrue a sum of money to take care of future abandoning costs on the theory that that should be provided for by accruals rather than as a current charge, could they?

Mr. Springer. The question isn't clear. The sum of money refers to what? May we have that read?

(The question was read by the reporter.)

Mr. Springer. Is that sum of money a reserve or a fund that you are talking about?

Mr. Milde. Are you asking me?

Mr. Springer. Yes, sir; it isn't clear, Mr. Milde.

Mr. Milde. Well, the question is whether it is clear to the witness.

Trial Examiner. Do you understand the question?

Mr. Slaff. We have a right to have it made clear to counsel, too, so that we can know whether to object to the question. It is a perfectly proper inquiry by us as to what is meant by the use of that term.

3636 Trial Examiner. All right.

Mr. Slaff. If counsel knows what he means.

Trial Examiner. Just what do you mean by the use of that phrase, that language?

Mr. Milde. Well, let me rephrase the question.

By Mr. Milde:

Q. It is perfectly clear, is it not, Mr. Dunn, that as a matter of practical accounting, starting from the beginning of the Company's operations, that it could not have handled well abandoning costs on two theories at the same time?

A. I think that is perfectly clear; yes, sir.

Q. And having adopted the practice, and being required to adopt the practice, under the subsequent West Virginia Commission Code of Accounts, of charging well abandoning costs to operating expenses as they occurred, they could not, the Company could not, as a practical matter, have also handled them on this accrual theory?

A. Well, you have got a statement in there to the effect that the West Virginia Commission required them to do this. Now I am not sure that if they had applied to the West Virginia Commission and asked for permission to create a reserve, that they wouldn't have given it to them. So I would like not to answer that part as to the requirements of the West Virginia Commission, because I don't know what they would have ordered in that case.

3637 But I will say this, that had they provided a reserve for well abandonment costs, the costs of abandoning should be charged to it; and if they didn't have a reserve, naturally they would charge it to operating expenses.

Q. Now, Mr. Dunn, the question I asked you is this, and I think you can answer it—and this time I will leave out the West Virginia Commission if it will please you any—that following the practice, right from the beginning, of charging well abandoning costs to operating expenses as they occurred, the Company could not, as a matter of practical accounting, have also accrued a reserve for future abandoning costs on the theory that is presented in your exhibit?

A. I don't believe they could have done that exact method. Of course, what would have happened is that they would have arrived at approximately the same result, as I have already testified.

Q. Well, we are perfectly clear, are we not, that they couldn't, as a matter of practical accounting, have done it both ways?

TRIAL EXAMINER. At the same time?

Mr. MILDE. At the same time.

The WITNESS. No; because of the fact that at that time they didn't know exactly what these present existing wells at 1938 were.

By Mr. MILDE:

3638 Q. Well, that is one reason, and the other reason is that you wouldn't possibly handle an operating expense on two different accounting theories which are different, at the same time, would you; that is, you wouldn't follow two theories simultaneously, would you?

A. No, indeed.

Q. And as you pointed out, the Company couldn't possibly have known in its past history, commencing in 1898, that on December 31, 1938, it would have approximately 3,261 wells, could it?

A. No; it wouldn't have known that.

Q. And they wouldn't have known in 1898 that at present price levels it would cost $1,007 to abandon those wells, would they?

A. They might have come to a figure approximating that. I wouldn't say that they couldn't have known that; no.

Q. They couldn't have estimated, back in 1910 or 1911, that the price level by 1938 would be substantially higher, could they?

A. Well, after all, they could very well estimate a cost which might come close to this, and it might even be higher. I don't know.

Q. By the way, do you think that when a company is setting aside reserves, it should include in its consideration the fact that the price levels may change in the future?

3639 A. No; the reserves are for the purpose of writing off the original cost of the property over its useful service life.

Q. Let me ask you one other thing about this $1,007, Mr. Dunn. The fact is that that is cost based on 1939 prices for abandoning, is that not so?

A. I got the cost from the engineering division.

Q. And didn't they advise you that that was based on 1939 prices?

A. No; they did not. I don't recall if they did, they may have.

Q. Now also, Mr. Dunn, it wouldn't have been possible, would it, for the Company to have known, in 1898, for any year right up to 1939, that its production property would be segregated into these pool areas, as testified to by Mr. Ross?

A. Well, had they made a similar study, they might have arrived at the same result.

Q. Well, they couldn't possibly have known that in 1941 Mr. Ross would come along and find certain pool areas in the Company's production property, could they?

A. Well, they probably didn't know that Mr. Ross would do it; no.

Q. Or that anybody would do it?

A. Well, they might have well expected that somebody might investigate their system at some time or another.

Mr. Slaff. That was a reasonable expectation, you mean?

3640 The Witness. Yes, sir.

By Mr. Milde:

Q. And also you think it is a reasonable expectation that the Company should have had, that this future geologist would divide its production up into these particular pool areas; do you think that that was a reasonable expectation?

A. From what I have learned, or from what I have heard the geologists say in the time I spent in the gas business, it is quite usual to divide production up into pool areas if it is at all possible.

Q. Well, the fact is that you have used these pool areas to arrive at your $2,107,000 accrual figure, haven't you?

A. Oh, yes; I have used them.

Q. And isn't it a fact that these accruals which you make for future cost of abandoning the present wells aren't based on the production and reserves of these particular wells?

A. It is my recollection that they are, but I would have to check to see the figure I used.

Q. I think that is rather important, Mr. Dunn. Will you check it, please?

A. I will have to go upstairs to get my work papers. I didn't bring the depletion work papers down.

Q. We have some copies of your work papers here. Can

3641 you use those?

A. Yes; I believe so.

(After a pause.)

The Witness. Will you read the question, please?

(The question was read by the reporter.)

The WITNESS. These wells are included in those production figures; yes.

By Mr. MILDE:

Q. I think you know what my question means, Mr. Dunn. Will you try to answer it more fully? Are they or are they not—and when I refer to "they," I mean these accruals of yours—based upon the production and the reserves of these particular 3,261 wells?

A. You mean—and no other wells—is that what you mean?

Q. That is what I asked you.

A. Yes; I will say, then, that these wells are included in those figures, and also all other production of the Company is included for any well that they had prior to 1938.

Q. That is right. These accruals for the cost of abandoning these 3,261 wells that the Company had on December 31, 1938, are based on the production and the reserves for all the wells the Company ever had, right down to December 31, 1938; isn't that so?

3642 A. That is correct.

Q. And the answer to my question as to whether or not these accruals for the future costs of abandoning these present wells are based on the production and the reserves of only those wells, is that they are not; isn't that so?

A. Well, if you would ask a direct question as to what they are based on, I could answer it directly. But if I answered it any other way, it might leave the impression that they were not included, which they are.

Q. Well, they are included with all the other wells the Company ever had, that is all you are saying?

A. That is right.

Q. And if I ask you again whether or not these accruals are based solely upon the reserves and the production of the particular 3,261 wells for which you develop these future accruals, the answer to that is what?

A. The answer is that they are not based solely on these 3,261 wells, but the word "solely" you did not use before.

Q. Do you know how many wells, Mr. Dunn, are included, or the production of how many wells is included, in the figures which you added to the production and reserves of these existing wells?

A. No; I didn't count them. It was the wells the Company had in the past, whatever wells it produced gas from in
3643 the past entered into this calculation.

Q. It is a matter of thousands, isn't it?

A. Yes.

Q. And it includes wells for which you have not allowed drilling costs in the adjusted book costs of the Company's properties, and the wells for which you have allowed some costs in the adjusted book costs?

Mr. SPRINGER. That is hardly properly phrased. What does he mean by "have not allowed drilling costs"? Is he talking about the costs that were expensed by the company in the past?

TRIAL EXAMINER. I don't know what he means.

Mr. MILDE. Well, Mr. Examiner, I think we have developed here, rather frequently, that in the adjusted book costs the Power Commission's accountants, including Mr. Dunn, have not included any drilling costs in their adjusted book costs for some 2,300 of the Company's existing wells. What I am now asking Mr. Dunn is, when he prepared this hypothetical accrual for these future abandoning costs, if he hasn't considered the production for both wells for which he has allowed drilling costs in the adjusted book costs, and those for which he hasn't.

Mr. SLAFF. Then I object to any question being put to him on the basis of a hypothetical accrual, when Mr. Dunn has testified that it is not a hypothetical accrual.

TRIAL EXAMINER. Well, that word wasn't used in the question, I believe.

3644. Mr. SLAFF. Well, as I understood it, it was explanatory of what was intended by the question.

TRIAL EXAMINER. I think that should be stricken out, if the explanation is to be considered part of the question.

Mr. MILDE. I think there is no question but that it is hypothetical——

TRIAL EXAMINER (interposing). Maybe you might use the term "so-called," or something like that.

By Mr. MILDE:

Q. Let me use the term "computed reserve." I think you will agree that this is purely a computed reserve, will you not, Mr. Dunn?

A. I guess all reserves are computed.

Q. And computed by you here. Now can you answer that question, with the explanation made to the Examiner?

A. I can answer the question, I believe. I can answer it by saying that the total gas produced up to 1938, by years, has been included in this calculation, and that also the gas recover-

able from the wells in service as of December 1938; and it seems to me that you don't completely understand this, and if you want me to explain just what I did, I will be glad to do it at this point.

Q. Well, I am sorry, you didn't quite answer my question, Mr. Dunn. Will you tell me now whether or not, in the past
3645 production which you have used to develop this computed total annual accrual of yours, you have not used production from wells for which you have allowed drilling costs in the adjusted book costs, as well as for wells for which you have not allowed drilling costs?

* * *

The Witness. When I answered by saying total production, I meant both types of wells.

3646 By Mr. Milde:

Q. And by "both types" now you mean wells for which you have included drilling costs in your adjusted book costs, and wells for which you have excluded drilling costs, do you not?

A. That is correct.

Q. Now, Mr. Dunn, going back again to page 32 of your detailed schedule, column (b), let me ask you if your figures don't contemplate that of the $3,285,000 of cash which the Company must have to abandon the wells existing as of December 31, 1938, your method provides for the recovery of only $1,177,000, in round numbers, in the future?

A. Well, I am inclined to answer that yes; if I understand your question perfectly.

Q. Well, I think you do, Mr. Dunn; and it is perfectly clear, is it not, that all you have to do is to find out what this total cost is, which is $3,285,000, which will be incurred in the future, and you deduct from that $2,107,000, which you have set up in your lines 33 and 35; and that means that after 1938, by your method, the Company will recover the difference between $2,100,000 and $3,285,000, or $1,177,000?

A. On these particular wells.

Q. That is what we are talking about, these particular wells. And the fact of the matter is that your computation
3647 provides that when the Company actually spends this $3,285,000 in the future, as these existing wells are abandoned, it will draw down on the $1,177,000 which you are going to allow it in operating expenses in the future, and for the bal-

ance of the cost of $2,100,000, it has just got to take that out of its own pocket, hasn't it?

Mr. Springer. Wouldn't it be more accurate to say that the rate payer would pay the operating expenses?

Mr. Milde. No; I am sorry, Mr. Springer, but a rate payer pays for gas, not for operating expenses.

Mr. Springer. It must include operating expenses.

By Mr. Milde:

Q. Well, isn't it perfectly clear, Mr. Dunn, that under your method you are going to provide, starting in 1939, in operating expenses, by your accruals here, $1,177,000 to take care of these future abandoning costs, and that is all, from 1939 on; isn't that so?

A. Well, I would say that we start from 1913 to make provision for the total, and I don't see what particular significance 1939 has. If we are considering operating expenses in 1938, then we provide $56,000 in that year; if we consider operating expenses in 1937, we have provided $75,000 in that year, plus whatever cost of abandoning has been charged to expenses. Now if those years have no significance, we will start
3648 with 1939.

Q. Well, Mr. Dunn, isn't it a fact that the only money the Company will get for this future $3,285,000—that is, get in fact—is the amount you allow, or the Commission allows, in operating expenses by way of accrual for this future cost, starting in 1939 when this new system of accounts went into effect?

A. The amount that they will get in operating expenses will be largely determined by the years in which they consider operating expenses. If they do not consider the years 1937 and 1938 in operating expenses, your statement is correct, that is all they will get.

Q. So in fact, the Company is going to be allowed to recover only $1,177,000, and the $2,100,000 which you have assumed has been accrued in the past, will have to be provided out of what funds or property it now has on hand, won't it?

A. I would say no.

Q. Well, where is it going to get the $2,100,000?

A. If in fact the Commission allows 1937 and 1938 operating expenses in their estimate or allowance for operating costs, and considers them, then they will, in fact, get $75,000 for this accrual in 1937, and another $73,000 for cost of abandonment, which has been included in operating expenses in 1937; and the

same thing will be true for 1938, except that the amounts
3649 are slightly larger in the case of cost of abandonment, which is $82,000, and the other figure is $56,000.

Q. That brings your figure down to a little bit below $2,000,000. Where will it get the $2,000,000?

Mr. Slaff. Do you understand that question?

The Witness. I certainly don't understand that last question.

By Mr. Milde:

Q. As I understand it, what you have done is to refer to page 32, lines 32 and 31, and said that if the Commission took 1937 and 1938 operating expenses into account, the Company would get $75,800 in 1937, and $56,169 in 1938, on your method, plus some amounts which you mentioned for the actual cost of abandonment that was incurred by the Company in those years, following its old practice?

A. That is right.

Q. And in that connection, Mr. Dunn, of course these additional amounts you mentioned, which you say the Commission will allow, was not for the cost of abandoning any of these present wells, was it?

A. Nevertheless, it is a cost, and a cost of abandoning gas wells, and that is what this problem is devoted to. I don't know what your distinction is there. It is a cost of abandoning gas wells actually incurred, and you have brought out very clearly the fact that this has been charged to expense, and we must consider
3650 the fact that it is charged to expense.

Q. Well, Mr. Dunn, we are taalking now about the cost of abandoning the 3,261 wells which were in service on December 31, 1938, are we not?

A. Yes; we are talking about——

Q. (Interposing.) That is what this whole accrual of yours is for isn't it?

A. That is correct.

Q. And you have pointed out that in 1937 and 1938, if the Commission follows your method, the Company is going to get $75,000 and $56,000 in operating expenses towards the cost of abandoning the wells in existence at the end of 1938?

A. That is right.

Q. And that is all that it is going to have towards that cost, is it not, in those years?

A. It is also going to have another feature which, if we had not included it in operating expenses, would have been included

here. Therefore, they will get more. That is directly related to this problem, and I tried to explain that a while ago, that you didn't seem to understand, but you apparently did not want to hear my explanation.

Q. I am afraid I understand it too well, Mr. Dunn. Let me ask you if it isn't a fact that excluding the \$75,000 and the \$56,000, which you show in your lines 31 and 32, which make \$130,-
3651 000, roughly, that the Company must just dig into its own pocket, out of its cash resources, or borrow from somebody if it doesn't have the cash resources, to pay the \$1,900,000 of future abandoning costs?

A. I believe what they will actually have to pay in the future will be determined solely by what the Commission allows in operating expenses. If they allow the method that I have set up here, there will be an allowance in operating expenses of \$75,000 a year in 1937, plus the amount they actually spent that year to abandon wells——

Q. (Interposing.) That is for wells in the past, isn't it?

Mr. SLAFF. Have you concluded your answer?

The WITNESS. No.

Mr. SLAFF. Please finish it.

The WITNESS (continuing). As to just what they would have to dig into their pockets for, would be rather a complicated calculation that I just can't make right here.

By Mr. MILDE:

Q. Mr. Dunn, it is perfectly apparent from what we have developed, is it not, that on your method of accruing for future well abandoning costs, all that you provide towards that future cost of \$3,285,000 is whatever the accruals are from 1939 on, as I suggested to you, or from 1937 on, as you suggested?

A. Yes.

3652 Q. And that at the most, that would make, say, \$1,300,000, or thereabouts, of future accruals towards this total future cost of \$3,285,000; isn't that right?

A. Yes; I believe that is correct.

Q. And all I am suggesting to you is that the balance of the \$2,000,000, or approximately \$2,000,000, the Company just has to provide for out of some other source, does it not, than these accruals from 1937 or 1939 on?

A. Or has possibly provided for in the past.

Q. And the net effect of what you are doing—let me ask you this: Wouldn't you think it fair, if you are going to shift over to a new system of accounts, new system of accounting on well abandoning costs, whereby you are going to set up an accrual rather than charge your well abandoning costs currently as wells are abandoned, to say, "All right, we will set up this new system now, but in fairness we have got to let the Company set up that accrual over the remaining life of these existing wells"?

Don't you think that would be a fair way to do it?

A. I am afraid that would be a violation of accounting principles, and not fair.

Q. You don't think that would be a fair way to do it?

A. Not considering this case; no.

Q. Do you think it would be a matter of proper accounting principles to let the Company continue to charge well

3653 abandoning costs to operating expenses as the wells were abandoned?

A. That would not violate any accounting principle. It would not be conservative accounting, though, I don't believe.

Q. So that it would be perfectly proper accounting practice to continue to charge well abandoning costs to operating expenses as they occur, wouldn't it?

A. I wouldn't say "perfectly proper." I think the Company realized the need of providing a reserve when they started one themselves in 1932. So it is proper, but I would say not eminently proper.

Q. Well, everybody considered it so, did they not, for 20 or 30 years?

A. That is right, they considered it proper accounting.

Q. All right.

Now if that happened, Mr. Dunn, the fact of the matter would be that as these wells were abandoned in the future, 10, 15, or 20 years hence, whatever it might be, some each year, the Company would be reimbursed their \$3,285,000?

A. That is right.

Q. Now——

A. (Interposing.) Wait a minute. I will have to qualify that as to what they will actually be reimbursed. This, of course, could present an extraordinary loss of \$3,000,000 here,

3654 and whether or not the rates will be high enough to cover it, or could possibly be high enough to cover it, I don't know. So I can't say they would actually be reimbursed on it.

Q. On this method of accounting they would be reimbursed, would they not?

A. If the rates were high enough to cover any loss, no matter in what year incurred, they would be reimbursed.

Q. Of course, if rates are not high enough, Mr. Dunn, they just aren't high enough to cover expenses—that is all you are saying?

A. That is right; so I can't guarantee that they will be.

Q. Well, now——

Trial Examiner (interposing). You have to assume they will be?

The Witness. Yes.

By Mr. Milde:

Q. Now if we followed that method of accounting, the Company would get back its \$3,285,000. Now if we say, "Well, we don't like this method of charging well abandoning costs to operating expenses as wells are abandoned; we ought to begin to accrue a reserve"—isn't it a fact that the only way that the Company can be reimbursed this total of \$3,285,000 is to accrue that reserve over the remaining production of these existing wells?

3655 A. By no means.

Q. You don't think that that is a fact?

A. I know it is not a fact.

Q. And isn't it a fact that what you have done is to provide for accruals, either from 1937 or 1939 on, towards this actual cost of \$3,285,000, of \$1,200,000 or \$1,300,000, such as we have developed before—that is all you have provided towards that actual future cost, isn't that so?

A. Well, by looking at this total in column (b), page 32, you will see exactly what is provided here.

Q. Well, I think you can answer that question, Mr. Dunn, directly.

A. Well, I will answer it this way, that I have earmarked certain expenses in my calculations as being provisions for this cost. Now they are not earmarked as such on the Company's books. However, should the Company desire or find it necessary to set up this reserve, there is certainly a balance available on the books to transfer to this amount, and many millions of dollars left over. So in fact, the amount has been provided for.

* * *

3656. Well, let me ask you again, Mr. Dunn: What you are assuming is, is it not, that approximately \$2,000,000 of these future abandoning costs which the Company has to

3657 pay out in cash, will be, in effect, supplied by using up a part of the reserves which the Company has set up on its books in the past?

A. Yes; that is correct.

Q. And it is perfectly clear, is it not, Mr. Dunn, that in the Company's past reserves, there has at no time been any provision made by the Company specifically for the future abandoning costs of future wells?

A. That is correct.

Q. Referring again to page 32, Mr. Dunn, let me ask you if these figures in your totals, under column (b), don't really constitute a reaccounting all the way back over the Company's history, for the abandonment reserve for existing wells?

A. I don't know whether you would call it "reaccounting" or not. It is a revised depreciation reserve all the way through, of which this is one small part, maybe a substantial part, and it is due to the fact that the Company now has an excess amount of accrued depreciation.

Q. Well, this is just reaccounting backwards over the history of the Company from December 31, 1938, back to 1898, for a reserve for abandoning costs of present wells, which reserve the Company never had?

Mr. Springer. I object. He has already said it wasn't a "reaccounting."

Trial Examiner. Yes, he certainly has. I don't see any reason why he shouldn't say "no" again, though.

3658 Mr. Milde. He didn't say that, he said he didn't know whether he would call it exactly that.

By Mr. Milde:

Q. But in substance it is a reaccounting, isn't it, Mr. Dunn?

A. I would call it a revised reserve for depreciation, of which this is one part, made necessary by the fact that the Company's book reserve could not be used in this case.

Q. Well, let me ask you this, Mr. Dunn: Isn't it a fact that you have set up these figures on page 32 on the assumption that this Commission's Uniform System of Accounts has been in effect for these present wells since the beginning?

A. No; not on that assumption, particularly.

Q. Well, generally, you have assumed that under the present System of Accounts a reserve for future abandoning costs should have been set up, and you have proceeded to set it up for these 3,261 wells, haven't you?

Mr. Slaff. I object to that. There are two questions there. You have assumed something and you have done something—those are the two questions. I object to the two questions in one.

Trial Examiner. Read the question.

(The question was read by the reporter.)

Trial Examiner. Have you assumed that it should be set up?

3659 The Witness. I didn't assume that under the present System of Accounts, because I don't think there is a word in the present System of Accounts that even mentions such a problem as this. It is just ordinary accounting practice which the System of Accounts also follows.

By Mr. Milde:

Q. Well, that last answer of yours is rather interesting, Mr. Dunn.

If there is nothing in the Commission's present Code of Accounts on well abandoning costs, why didn't you just carry out the past practice of the Company, permitting it to charge well abandoning costs to operating expenses as they occurred?

A. Well, I felt that an amount like that of $3,000,000, a known cost to be incurred in the future, should be provided for by this Commission, and it is eminently proper that they should recognize that and provide for it.

Q. Of course, that $3,285,000 would have been provided for by currently charging well abandoning costs as wells were abandoned, wouldn't it?

A. In such a cost as that, it is well to provide a reserve for it. That is what a reserve is for, to take care of such extraordinarily large expenses in future operating costs.

Q. And it is a fact that if the Company's past accounting practice had been carried out, then over the future years, as these existing wells were abandoned, the Company would be

3660 allowed to charge in operating expenses this $3,285,000 as the wells were abandoned; isn't that a fact?

A. That is correct.

Q. And isn't it a further fact that by this shifting theory of yours, which you——

Mr. Slaff (interposing). I object to that right now, because it is obviously an improper characterization, and there is no point in going on with the rest of the question.

By Mr. Milde:

Q. Isn't it a further fact, Mr. Dunn, that by this method which you have used—and I understand that you say it is not required by the present Code of Accounts, is that right?

A. I don't think it is specifically required. There is an implication in the Code of Accounts that costs of abandoning should be charged to a reserve, but of course there must be a reserve provided for in order to charge it to that.

Q. Isn't it a further fact, then, that by this method which you have used here, you have and you will permit the Company to charge from either 1937 or 1939, whichever you select, only $1,300,000 in current operating expenses towards this future actual cost of $3,285,000?

A. That is right, that is all that can be charged in addition to the amount already provided.

Q. And if there had been no change in the past practice
3661 which the Company has followed for 40 years, it would have recovered, in current operating expenses, not $1,300,000 as you provide, but this actual $3,285,000 cost?

A. That is correct.

Trial Examiner. We will take a recess of 10 minutes.

(Whereupon, a 10-minute recess was taken, after which the hearing was resumed.)

Trial Examiner. You may proceed, Mr. Milde.

By Mr. Milde:

Mr. Dunn, these total figures on page 32, you carry over to column (f) on Schedule No. 2 at page 25, do you not?

A. Yes, sir.

Q. And you show there, in lines 33 and 39, under column (f), this figure of $2,107,000 of computed accruals that we have been talking about, do you not?

A. Yes, sir.

Q. Now isn't it a fact that that $2,100,000, you add in line 39 to your reserves for Operated Acreage, Field Line Right-of-Way and Construction Cost, and Gas Well Construction, to give you a total figure of $6,612,000?

A. I do.

Q. And referring to column (b), line 40, you show an adjusted original book cost, as you phrase it, of $9,956,000, do you not?

A. Yes.

3662 Q. And that is composed of your adjusted book cost of Operated Acreage, as shown in column (c); and Field

Line Right-of-Way and Construction Cost, in column (d); and your Gas Well Construction Cost, in column (e); is it not?

A. That is right.

Q. Now, then, you deduct from that $9,956,000 this figure of $6,612,000, as shown in line 41, isn't that so?

A. Yes, sir.

Q. Which includes this $2,100,000 of computed accruals for future well abandoning costs?

A. That is correct.

Q. And you deduct that and get a net book cost of $3,343,000?

A. Yes, sir.

Q. And isn't it a fact that the effect of that deduction is to reduce, by $2,100,000, your net book cost of Operated Acreage, Field Line Right-of-Way and Construction Cost, and Gas Well Construction?

A. That is true: it does reduce that.

Q. And if you hadn't worked this computed accrual for future well abandonment costs, into your reserves for Operated Acreage, Field Line Right-of-Way and Construction Cost, and Gas Well Construction, you would have shown a net book cost for those properties of about $5,451,000, wouldn't you?

A. Yes, sir.

3663 Q. So really the effect of your computed accrual is to eliminate $2,100,000 of the net book cost of Operated Acreage, Field Line Right-of-Way and Construction Cost, and Gas Well Construction Cost?

A. That is correct.

* * *

Q. Will you turn to Schedule No. 3 at page 34? This is your summary schedule for production plant, is it not?

A. It is the depreciable property in the production plant.

Q. Whereas, your Schedule 2, which we last referred to, was the depletable property in the production plant?

A. Yes, sir.

Q. I notice that the second line of this Schedule No. 3, Mr. Dunn, says "Annual and Accrued Depreciation." Isn't

3664 that so?

A. Yes, sir.

Q. Which figure on this Schedule No. 3 represents accrued depreciation in the production plant?

A. The amount shown on line 53.

Q. Line 53, which reads "Total Reserves for Depreciation of Production Plant as Adjusted, December 31, 1938"?

A. That is correct.

Q. And that figure is $8,673,000, in round figures?

A. Yes, sir.

Q. And doesn't that same figure appear at line 55, called "Adjusted Depreciation Reserves"?

A. It does.

Q. And immediately above is the figure of $16,352,000, called "Adjusted Original Book Cost"?

A. Yes.

Q. Now you say that $8,600,000 is accrued depreciation. What is the percent of accrued depreciation, as you determined it on this Schedule No. 3, for the total production plant—depreciable property?

A. Roughly, slightly over 50 percent.

Q. Well, isn't it 53 percent, Mr. Dunn?

A. I don't have the figure before me. I suppose it would be about 53 percent.

And that leaves a net book cost of production plant
3665 of about 47 percent, does it not?

A. Yes, sir.

Q. As derived from the figures in column (b)?

A. Yes.

* * *

3668 Q. Mr. Dunn, will you tell me what you mean—and not what Mr. Smith means—by the term "accrued depreciation" as used in the heading of Schedule No. 3 and in the headings of your other Schedules throughout this exhibit?

A. That represents the actual existing depreciation in the property, and it is determined by spreading the service value over the service life, in this case original cost.

Q. Now will you tell me what you mean by the term "actual existing depreciation?"

Mr. Springer. Well, Mr. Examiner, that is pretty obvious, isn't it?

3669 Trial Examiner. If it is, I don't see any reason why he shouldn't state it.

The Witness. It is the amount of the cost of the property that has been consumed in gas service.

3670 By Mr. Milde:

Q. You don't consume a cost in gas service, do you, Mr. Dunn; you consume property?

Mr. Slaff. I object to that. Again he has got two questions in one.

Trial Examiner. All right, separate the questions, please.

Mr. Milde. Will you read that last answer?

(The answer was read by the reporter.)

By Mr. Milde:

Q. What I am now asking you, Mr. Dunn, is whether it is cost or property that is consumed in gas service?

A. Well, undoubtedly both.

Q. Well, as I understood it, you were defining "actual existing depreciation" in property; is that right?

A. I have identified this as being cost dollars.

Q. Then, when you defined accrued depreciation as the actual existing depreciation in the property, you didn't quite mean that, did you?

A. Well, if the word "depreciation" is understood to mean depreciation in dollars, that is exactly what I meant.

Q. Well, wouldn't it be more accurate to say that what you mean is actual existing depreciation in the cost of the property?

A. I am not exactly sure as to just what that would
3671 mean. If it means the same as I defined it, then it is right.

Q. Well, you are not really dealing with property here at all, are you; you are dealing with costs as you have adjusted them?

A. The cost is, of course, directly related to certain property.

Q. And I want to know whether, when you say "accrued depreciation" as you do throughout this exhibit, you mean accrued depreciation as existing in the company's properties, or whether you are talking about accrued depreciation existing in the book cost or some other cost?

Mr. Slaff. I object to that. He has answered it several times.

Trial Examiner. Go ahead and answer it again.

The Witness. I mean in terms of the original cost of the property.

By Mr. Milde:

Q. So this phraseology "accrued depreciation" or "actual existing depreciation" is related solely to the cost of the properties as you have determined them; is that so?

Mr. Springer. I object, Mr. Examiner. Mr. Smith has been the witness on the principles of depreciation, and he has defined very definitely what "actual existing depreciation" is. He says: "Actual existing depreciation is the expired, diminished,

or consumed service life, which I also term the economic
3672 life of a utility's depreciable plant." He has stated that at page 2831 of the transcript. Mr. Smith designed this exhibit and supervised Mr. Dunn, and I think the question should be presented to Mr. Smith, although it is very plain from the transcript already what the term means.

Mr. Slaff. I might add, Mr. Examiner, in line with Mr. Springer's statement, that we have Mr. Smith here and he has been here all the time and is ready to be produced on cross-examination of his direct testimony on the subject of depreciation at any time that the company indicates that it desires to examine him on cross-examination on the subject of depreciation.

Mr. Milde. Read the last question, please.

(The question was read by the reporter.)

Mr. Milde. I think I am entitled to an answer to that question, Mr. Examiner.

Trial Examiner. I don't understand just exactly what the fact that Mr. Smith has defined certain terms here, and the fact that Mr. Smith is available for cross-examination has to do with the use of those definitions and the application of those definitions in the preparation of this exhibit.

Now, I assume that this witness necessarily applied those principles, and the purpose of the question, it seems to me, is to determine just exactly how he construed them, and how he applied them in this case. It seems to me to be perfectly proper
3673 cross-examination, and the objection is overruled.

The Witness. The reserve does apply to the original cost of the property. I wouldn't want to say "solely," because depreciation reserve is a very broad term, and I don't know for what purpose the word "solely" was inserted.

By Mr. Milde:

Q. I wasn't asking you about your reserve, I was asking you about the term "accrued depreciation," or "actual existing depreciation," as you subsequently stated it.

A. And that also is synonymous with the reserve for depreciation, as shown on line 53.

Q. Then we are perfectly clear that that relates to the cost; is that right?

A. That is right.

Q. And we are not talking about accrued depreciation or actual existing depreciation in the sense that an engineer would deter-

mine that, or in the sense that an engineer might find that in the physical properties?

Mr. REEDER. I object to that.

Mr. SPRINGER. I object to what an engineer might do.

TRIAL EXAMINER. Objection sustained.

By Mr. MILDE:

Q. Let me ask you, Mr. Dunn, if it isn't a fact that this accrued depreciation, this actual existing depreciation, and this depreciation reserve of yours—which you say are synonymous;

3674 isn't that right?

A. That is right.

Q. (Continuing.) Is merely the sum of annual accruals that you have computed as applying to the adjusted book costs of the properties less retirement losses charged against this reserve, that you charged against the reserve?

A. That is absolutely correct.

Q. Now, referring you again to schedule No. 3, page 34——

A. (Interposing.) Wait a minute. There is liable to be a misunderstanding there. There are a few other items set forth on this exhibit, composing the accrued depreciation, which you will notice are reserves acquired from other companies. That also enters into the determination of the total, outside of the specific provisions set forth here.

Q. Well, we will come to that a little later, but let me just clarify your answer, if I may, Mr. Dunn. What you mean is that in addition to these accruals that you have worked out, you have added reserves acquired from other companies; that is what you are saying now, isn't it?

A. Yes, sir.

Q. So that we add some company bookkeeping figures to your exhibit figures, or you added the company's bookkeeping figures to your exhibit figures on these reserves?

A. Some company cost figures, which are also bookkeeping figures.

3675 Q. Company inherited reserves, isn't that what you are saying now?

A. I said acquired reserves.

Q. Now, referring again to schedule No. 3, on page 34, your first item there is "structures," is it not, column (c)?

A. Yes.

Q. And that has an adjust book cost of $212,000, as you show it in line 5; isn't that so?

A. Yes, sir.

Q. Now, that is a relatively small portion of the depreciable part of the production plant; is it not?

A. Yes, sir; that is.

Q. And for that reason I would like to turn to column (d), which is Field Line Material, Measuring and Regulating Station Equipment, where you show an adjusted book cost of $7,934,000; isn't that so?

A. Yes, sir.

Q. And that is almost half of your total for this property shown in column (b); is it not?

A. Yes.

Q. Now, under your line 5 there appear the figures 2.22 percent for this Field Line Material, column (d), and similar figures of 4.17 percent, 2.50 percent appear under columns (c) and (e); do they not?

A. Yes.

3676 Q. Now, those are the annual depreciation rates supplied to you by Mr. French, are they not?

A. That is correct.

Q. You made no investigation yourself as to the reasonableness or unreasonableness of those depreciation rates?

A. I did not.

Q. And if any of those rates should be in error as a matter of mathematical judgment, your computations, using those rates, would carry through those same errors, would they not?

A. They would reflect an error to that extent; yes, sir.

Q. Now, I would like to develop with you, Mr. Dunn, your general method as to what you did with Mr. French's rates, and using column (d) as an illustration, the column (d) relating to Field Line Material, isn't it a fact that you have applied Mr. French's 2.22 percent rate to the average book balances in the company's field line material account, from 1898 down to 1938?

A. That is correct.

Q. And those are simply the average plant balances as they were set up by the company; isn't that so?

A. They weren't exactly set up this way. We made a reclassification or redistribution of certain accounts in order to group them. That is, the company didn't use the same account all the way through, and sometimes they overlapped.

3677 Q. What you mean, Mr. Dunn, is that you simply regrouped the figures as appearing on the company's books

for gross plant balances, into these categories of Structures and Field Line Material, and so on?

A. They have been so grouped.

Q. But they are the company's book figures?

A. Yes, sir.

Q. And you haven't made any adjustments retroactively to those book figures from 1938 back to 1898, have you?

A. Not on this account.

Q. Well, you haven't on any accounts, have you, except to eliminate the plant balances for the property used to transport coke-oven gas?

A. I recall one other adjustment——

Q. (Interposing.) Well, did you make that one?

A. Yes, we made that one; and then we included $1,400,000 in the year 1920, which the company for some reason wrote off to expense, but which we felt should not have been written off. So we naturally included that in a retroactive manner.

Q. And did you put that in retroactively as of the year in which you restored that to plant account?

A. Yes; rather than trying to divide these costs up into five years, of which only some portion remained, we took 1920 as the average year.

Q. But, apart from those two adjustments, you have
3678 simply taken the company's plant balances, per books, and applied Mr. French's rates each year to the average plant balance for that year?

A. That is correct; that is the only adjustments that I recall.

Q. And isn't that what these figures are in lines 6 to 46 under column (d)?

Mr. SPRINGER. Mr. Milde, does that previous question refer to the restoring of the annual allowances which appear on page 34 in lines 6 to 46?

Mr. MILDE. That is true; the accruals.

The WITNESS. Yes.

By Mr. MILDE:

Q. In other words, Mr. Dunn, that $28.26 that appears in line 6 under column (d) for the year 1898 is 2.22 percent of the company's average plant balance for 1898 for field line material?

A. Correct.

Q. And so on down through each year?

A. Yes.

Q. And in the year 1938, as shown on line 46, for example, the $180,000, speaking in round figures, is 2.22 percent of the gross plant balance as shown on the company's books for the year 1938, averaged as between the beginning and the end of the year?

3679 A. That is correct.

Mr. SLAFF. Can I have that question back again, please?

(The question was read by the reporter.)

Mr. SLAFF. I am not clear as to whether that is the balance on the company's books or the balance on the company's books as adjusted by Mr. Dunn, and the application of the percentage made to that.

The WITNESS. That is the amount as adjusted for the 1938 balance.

By Mr. MILDE:

Q. You say that for the year 1938 it is the amount as adjusted by you, Mr. Dunn?

A. It is not; it is the average for the year, and the adjustment is only effective as of December 31, and I did not make it retroactive in any manner.

Q. Well, in order to clarify Mr. Slaff on this, Mr. Dunn, you have not reflected back to the year when they occurred, the adjustments which you made as of December 31, 1938, in connection with your determination of adjusted book costs, have you?

A. Outside of the items noted, there has been no adjustment made back.

Q. Outside of the coke-oven gas property, and that $1,400,000 to which you previously referred?

A. That is right.

3680 Q. And your 2.22 percent rate in 1938, 1937, 1936, and so on, has been applied to what the company's books show or showed as of those years for gross plant cost of field line material, and so on?

A. Correct.

Q. You have assumed in this calculation, have you not, that the company's properties—and when I talk of "properties" in connection with this examination here, I am referring to the properties that are comprised in the accounts we are looking it. You have assumed, have you not, that in 1898 the company's field line properties, as then existing, were depreciating at the annual rate of 2.22 percent?

A. That is correct.

Q. And in 1899 at 2.22 percent?

A. Yes.

Q. And so on down through the years, right down to 1938?

A. Yes, sir.

Q. And isn't the general method of approach that you have used here, to set up a reserve that the company would have accumulated if it had started in 1898 and had applied Mr. French's rates as he has now determined them, to the plant balances?

A. Yes; I believe that is the result.

3681 Q. Let me ask you if this first set of figures in lines 6 to 46 don't represent merely the accruals on that theory?

A. That is correct; those are the provisions; annual provisions.

Q. That is, that is what the company would have accrued if it had done what we have just talked about?

A. Yes, sir.

Q. And against that of course you have to, on your theory, make certain retirements and deductions and so on?

A. Yes, sir.

Q. Now I notice that your total accruals for field lines, which we are talking about here, field line material, at the end of 1939 amounted to $3,864,000, as shown in line 47; isn't that so?

A. Yes, sir.

Q. Now you next have an item in line 48, "Add—Reserves Acquired"—$780,416?

A. Yes, sir.

Q. Now is that figure the reserves which appeared on the books of the predecessor utilities and nonutilities for property which the Hope Company purchased?

A. Not in every instance.

Q. Well, generally what is it?

A. Well, in the case of the Clarksburg Light & Heat, it is a reserve. In some of the other companies it may be a

3682 reserve that appeared on their books. In other instances, the company set up this reserve as it recorded the property, at the time it recorded the property on its own books, because they didn't have the other companies' books.

Q. Well, from which predecessor companies or predecessor utilities or nonutilities did most of these reserves acquired come from?

A. A very large amount came from the Mountain State Power Company.

Q. The Mountain State Gas Company, isn't it?

A. Yes.

TRIAL EXAMINER. When you say "It came from" there, do you mean it was actually on the books of the predecessor company, and then entered on the books of the company?

The WITNESS. I would have to check another work paper I have—analysis of acquisition. This merely is a break-down of the reserves acquired, and it doesn't show exactly whether or not it was entered on the predecessor company's books.

TRIAL EXAMINER. The records there simply show that the amount was set up on the books of the Hope Company when the property was acquired?

The WITNESS. Yes, sir.

By Mr. MILDE:

Q. You were saying that a large part of these reserves acquired came from the Mountain State Gas Company?

3683 A. Purchase.

Q. And another large part came, did it not, from the Clarksburg Light & Heat Company?

A. Yes; also a large part came from the Carter Oil Company.

Q. That was in the early days?

A. 1926.

Q. Well now, responding more directly to the Examiner's question, Mr. Dunn, isn't the situation generally that on these large purchases the Hope Company put on its books whatever the predecessor companies had on their books, and then put in its depreciation reserve whatever reserve the predecessor companies had set up; isn't that generally the situation?

A. Yes. I have a general discussion of that situation on page 4 of my direct testimony.

Q. And that is the reason that you called this line 48, as shown on this schedule, and similar lines on your other schedules, as "Reserves Acquired"; isn't that so?

A. That is not the sole reason, of course. The important point there is that these must be stated on the basis of the actual cost to the Hope Natural Gas Company, and the difference between reserves and original cost and purchase price must be correctly accounted for—and this is one step in that accounting.

Q. Well, what you have ultimately reflected in your Plant Accounts, as you adjusted them to determine the adjusted
3684 book cost as of December 31, 1938, is the purchase price to

Hope of the Mountain State Gas Company property and the Clarksburg property; isn't that so?

A. Well, I just said that it is reflected in the plant accounts, and the reserve accounts. They both must be taken into consideration when you consider purchase price.

Q. Was your treatment the same, Mr. Dunn, for properties purchased from nonutilities?

A. I might explain that by saying that Hope's treatment was approximately the same. Their practice at all times was to record original cost as nearly as could be determined. The difference between original cost and purchase price, if any, was recorded in the reserve for depreciation.

Q. Mr. Dunn, I don't want to quarrel with you about the practice of the company, but are you attempting to testify now that in connection with its bookkeeping over the years, the Hope Company ever attempted to find out the actual original cost of properties which it purchased?

A. Oh, I certainly am. That is very clearly indicated by the fact that they have got these books from the other companies, have made investigations of them, went out and took field inventories. I think they determined it in every instance that I have been able to check.

* * *

3687 Q. Now Mr. Dunn, in connection with these reserves that were acquired by the Hope Company from the Clarksburg Light & Heat Company, and the Mountain State Gas Company, and the Carter Oil Company, were or were not those reserves set up by these predecessor companies at an annual rate of 2.22 percent as applied to Field Line Material?

A. I doubt that they would be, I don't know of course in every instance.

Q. Did you make any investigation as to the annual rate at which these predecessor companies set up their depreciation reserves?

A. I have already testified that I did not. You asked me that very same question once before.

3688 Q. On another exhibit.

A. No; on this exhibit.

Q. You know, do you not, Mr. Dunn, that the Clarksburg Light & Heat Company, and the Mountain State Gas Company were affiliated companies of the Hope Company at the time of purchase?

484808—42——35

A. I believe that they were, I don't recall exactly the extent of the affiliation.

Q. And wouldn't you expect that their annual depreciation provisions would be on a very conservative accounting basis, just as in the case of the Hope Company?

Mr. REEDER. I object to the form of the question. It seems to me this Commission is not interested in any speculations, and I don't think it is proper for counsel to ask the witness to speculate.

TRIAL EXAMINER. Read the question, please.

(The question was read.)

TRIAL EXAMINER. It seems to me that you have two questions.

Mr. MILDE. I will withdraw it, Mr. Examiner, because of course actually Mr. Dunn ought to know this.

By Mr. MILDE:

Q. Isn't it a fact, Mr. Dunn, that the books of the Clarksburg Light & Heat Company were available to you?

A. Yes.

Q. And that if you had examined the depreciation vouchers
3689 of that company, you could have determined the precise
rates at which that company had set up its depreciation
reserves in the past?

A. Yes, sir.

Q. And isn't that same situation true of the Mountain State Gas Company?

A. I believe those records were available.

Q. And the fact is that you didn't look at them?

A. Oh, yes; we looked at them——

Q. (Interposing.) So far as ascertaining at what rates the depreciation reserves of these predecessor companies were set up?

A. I personally did not, because I was not interested in those rates, but some of the members of the staff may have looked at them.

Q. Well, did they advise you what they were?

A. Not that I recall.

Q. Do you know of any memorandum in Commission's files that states what they were?

A. No.

Q. Well, isn't it a fact, Mr. Dunn, that by adding what you call these "Reserves Acquired" in line 48, which we have talked about, you have just assumed that this acquired reserve at the date of purchase accurately represented the accrued depreciation in that property as of the date of purchase?

3690 A. I don't know that I have assumed it—it did.

Q. Oh, you think it did?

A. Yes.

Q. And did you know, when you used these figures in schedule No. 3 and elsewhere, what the relationship of the accrued reserves, as shown on the Clarksburg Light & Heat Company's books, was to its gross book cost of its plant at the time of purchase by the Hope Company?

A. Yes; I knew the relationship of reserve to the gross book cost and purchase price.

Q. And what was that relationship for the Clarksburg Light & Heat Company properties?

A. I don't have those acquisition work sheets down here.

Q. Well, will you have them after lunch?

A. Yes.

Q. Let me ask you to check on those sheets, Mr. Dunn, as to whether it isn't a fact that the depreciation reserve of the Clarksburg Light & Heat Company was about 43.8 per cent of the book cost of its properties at the time it was purchased by the Hope Company; and whether, in the case of the Mountain State Gas Company, the Mountain State Gas Company's bookkeeping reserve wasn't 52 per cent of the gross book cost of its properties at the time Hope purchased it?

* * *

3692 By Mr. Milne:

Q. Mr. Dunn, were you able to check during the recess the percentages I gave you just before adjournment?

A. I checked the percentages. I do not believe I found them exactly the same as yours. I will give them to you, though.

Q. What did you find?

A. On Clarksburg Light & Heat the reserve was 39.8 per cent of the plant account and the net book cost was 60.2 per cent of the plant account.

Q. That was at the time of Hope's purchase of Clarksburg Light & Heat?

A. That is correct.

Q. That was in 1929, was it?

A. Correct. On Mountain State the reserve was 48.9 per cent of the plant account and the purchase price or net book cost was 51.07 per cent of the plant accounts.

Q. Are those dollars shown in your work sheet, that
3693 is the figures from which you derive the percentages?

A. Yes.

Q. Was that Mountain State Gas Company purchase made in 1910?

A. Yes.

Q. Could you give us the dollars that you used for your computation for Clarksburg Light & Heat?

A. Yes. Gross book cost $2,169,692.69; reserves, $863,942.09. On Mountain State plant accounts, $1,299,418.21; reserves, $65,755.

Q. Did you check also the Carter purchase or not?

A. I did not check the Carter purchase.

Q. You did not make any investigation, did you, Mr. Dunn, as to whether the relationship between the reserves and the gross book cost of the Clarksburg Light & Heat Company and the Mountain State Gas Company corresponded in any way to the physical condition of the properties that were purchased by the Hope Company?

A. No; I did not.

Q. Or in any way measure the expired service life?

A. No. That would have required a service life study by the engineers, and I did not do that.

Q. And as far as you know, the engineers made no such examination or determination?

A. No.

3694 Q. Is it not also a fact, Mr. Dunn, that you did not determine what would have been a proper reserve for Clarksburg Light & Heat Company and the Mountain State Gas Company to have had at the time Hope purchased the properties on the depreciation rates that Mr. French supplied you?

A. No; I did not make such investigation.

Q. In other words, you did not redetermine the depreciation reserves or the accrued depreciation, or the actual existing depreciation, insofar as those properties were concerned at the time of purchase?

A. I would like to say that to Hope the actual existing depreciation stated on the cost basis was, in the case of Clarksburg, $863,942.09. Now, as far as Clarksburg is concerned, I did not restate their accrued.

Q. What do you mean by the statement that you hope the actual existing depreciation was so much?

Mr. Slaff. He said "to Hope."

The Witness. As far as Hope's cost is concerned, that is what the actual existing depreciation is.

By Mr. Milde:

Q. Just how did you arrive at that conclusion, Mr. Dunn?

A. Hope recorded an original cost of $2,233,252.76 as the original cost of the property, and——

* * *

3696 The Witness. The difference is $1,369,310.67, which they paid for this property, $1,369,300 even, making a difference of $10.67. Therefore the depreciation amount of $863,000 is the actual depreciation on a cost basis. It can not be otherwise. To do so would change the cost.

By Mr. Milde:

Q. Mr. Dunn, will you now explain the difference between the figure of $2,169,000, which you gave me before, and the $2,233,000 which was the gross book cost of the Clarksburg properties?

A. Yes. That difference is largely some construction work in progress.

Q. I see. When you said that Hope recorded $2,233,000 as the original cost I judge that what you mean is that Hope recorded that amount of money which was the book cost to the Clarksburg Light & Heat Company in Hope's plant account, is that not so?

A. Yes. Those two figures combined make the original cost to Hope.

Q. And when you say that the difference between the purchase price and the gross book cost of the Clarksburg Light & Heat Company represents depreciation of Hope—is that

3697 what you said?

A. Yes.

Q. What you mean is, and all that you mean is that Hope paid $1,300,000 for property that the Clarksburg Light & Heat Company showed on its books as having a book cost of $2,233,000?

A. A net book cost of $1,369,310, exactly what they paid.

Q. Well, how can the difference between the cost to the predecessor utility of these properties and what Hope Company paid for them represent depreciation to the Hope Company?

A. Well, that is merely the difference between recording net purchase price and Hope's purchase price and reserve accounting. That is an option that is quite often made.

Q. That is all you meant by it? It is just that difference that you are talking about here?

A. I am talking about actual cost figures here all the way through.

Q. Well, so far as those properties which were purchased were concerned, you do not know, do you, Mr. Dunn, whether the difference between the gross book cost as shown on the Clarksburg Light & Heat Company books and what the Hope Company paid Clarksburg Light & Heat for those properties measured the correct reserve accrual for those properties or the actual existing depreciation, or the accrued depreciation as you

3698 used it in your exhibit, or the expired service life of those properties, do you?

A. I do not think that that point has any importance whatsoever in this transaction, of course not. Therefore I did not go back and investigate that, as I told you many times.

Q. I am not concerned with whether you thought it was important, Mr. Dunn. All I want to know is, you do not know and you made no investigation as to whether that difference between the book cost as shown on the Clarksburg Light & Heat Company books and what Hope paid, and the lesser amount that Hope paid the Clarksburg Light & Heat Company represented the items that I have just enumerated?

Mr. Slaff. He answered that already in the answer to the last question, at the end of his answer. He said, "And therefore I made no investigation." The question has been answered. Why can not we go on to the next question? I object.

Trial Examiner. That is your answer, is it?

The Witness. That is right.

Mr. Milde. I also asked him not only whether he made any investigation but whether he knew anything about it.

The Witness. I think this $863,000 is a very good measure of the accrued depreciation of the property.

By Mr. Milde:

Q. You reached that conclusion without having made any investigation, I judge?

A. I reached that conclusion because that is what Hope

3699 paid for it in cash.

Q. And if Hope got a good bargain, would you say that because it got a good bargain the properties were more depreciated than if it had made a bad bargain?

A. Possibly. On a different set-up I do not know just what my answer would be.

Q. If the Hope Company had paid the Clarksburg Light & Heat Company, say, $2,000,000 instead of $1,300,000, on your method of handling this matter you would have then shown, would you not, a reserve acquired of $233,000 or thereabouts instead of the $863,000?

A. Not necessarily. Again I would see what the relationship was between the amount recorded on the books as original cost, the amount recorded in reserve for depreciation and the purchase price. I would want to study all factors involved before I made a decision on the transaction.

* * *

6752 TESTIMONY OF F. P. C. WITNESS DUNN ON COMPARISON OF DEPRECIATION RATES

Transcript pages 6752–6756

Direct examination by Mr. SPRINGER:

Q. Referring to Exhibit 142, Mr. Dunn, did you prepare this exhibit?

A. Yes.

Q. Are the sources of the figures and explanations of the table shown at the bottom of the sheet?

A. Yes; they are.

Q. What is the purpose of this exhibit?

A. To show that different depreciation rates, when applied properly and consistently, make little or no difference when compared in terms of cost to ratepayers.

In a comparison of the factors determining costs and rates, it is necessary to present the comparative figures on a cost basis. This statement applies particularly to depreciation expense and net property.

The difference in net property have been stated in terms of cost, as shown by column "H" on page 1, by applying an assumed 6-percent rate of return.

Q. The figures on page 1 do not compare those accounts where reserves and expenses are computed on a depletion
6753 basis, do they?

A. No; the depletion accounts cannot be compared by the same method used to compare the depreciation accounts because the depletion rates vary with production.

Q. What does the comparison as between Rhodes and French depreciation rate show when stated in terms of cost to ratepayers?

A. The difference is a saving to ratepayers of $24,621 by reason of using French rates.

Q. The figures shown on page 2 make a comparison of cost to ratepayers for return and depletion of operated leases, do they not?

A. Yes; these figures are taken from exhibits in the record. The comparison is confined to operated leases because this is the only account where per cent condition is applied to original cost and related expense is stated in terms of original cost.

Q. Mr. Rhodes' shows a higher original cost, does it not?

A. Yes; approximately $85,000 higher as determined by Witness Antonelli.

Q. Even so, his per cent condition method shows a lower net cost, does it not?

A. Yes; in the amount of $145,855.

Q. If you both started with the same figure, the
6754 difference would be more pronounced?

A. Yes.

Q. Do you recommend a larger expense than the company claims?

A. Yes; $15,423 higher, averaged for four years.

Q. What does the comparison of depletion expense and return on operated leaseholds show when stated in terms of cost to ratepayers?

A. The difference is an increased cost to ratepayers of $24,174, by reason of using the Federal Power Commission Examiner's accounting method.

Q. And that amount is an offset to the $24,000 you referred to on page 1 for depreciation, isn't it?

A. That is correct.

Q. Operated leaseholds amount to $1,600,000 of cost at December 31, 1938. Is there much other property which you have accounted for by depletion methods?

A. Yes; amounting to over $8,000,000, which property has not been compared in this exhibit.

Q. Do you recall a question, shown on page 3123 of the record, by Mr. Reeder, concerning the method used in depleting the capitalized well construction of some 722 wells, as to whether your reserve would be higher or lower if you had used the company method? What was your answer?

A. My answer is just that I remember the question
6755 and I answered that I believed the reserve would be higher using methods as proposed by the company. The company actually uses the accounting method and not a percent condition method on their books.

Q. Do you recall a similar question by Mr. Reeder concerning a higher or lower annual allowance for depletion?

A. Yes; and my answer was that the company method would have resulted in a lower annual allowance.

Q. That means that the company would have a lower rate base and less annual allowance?

A. Yes.

Q. Are you satisfied that your answers are correct?

A. Yes, because the same depletion methods have been applied to operated leaseholds. The net cost is lower and the annual expense is lower by reason of a percent condition method being applied to leaseholds, applying the percent condition method to well construction would produce similar results.

Mr. SPRINGER. I offer in evidence Exhibit No. 142.

TRIAL EXAMINER. Any objection?

Mr. MILDE. No objection.

TRIAL EXAMINER. Exhibit 142 is admitted into evidence.

(The document referred to was received in evidence as Exhibit No. 142.)

TRIAL EXAMINER. Is there any cross-examination?

6756 Mr. MILDE. Just one question.

Cross-examination by Mr. MILDE:

Q. Mr. Dunn, in this exhibit you have applied Mr. Rhodes' rates to your figures, have you not?

A. That is correct.

Q. That is, as shown in colnm "B", that is the adjusted book cost as set forth in other Commission exhibits?

A. Yes.

Q. And also you recognize, do you not, that column "H," if you used a 7 percent return for example, that that would about double the difference shown in column "J"?

A. Well, I don't think it would double it. I think I used 8 percent as a comparison, which I don't have noted here, just to see whether it would double it or not, and I don't think it increased it but very slightly.

Q. Our figure using 8 percent is $70,868 for the bottom column "J." Does that check with your figure?

A. Yes; I recall the amount.

Mr. MILDE. That is all.

* * *

6394 **TESTIMONY OF F. P. C. WITNESS BLEASE ON COMPARISON OF METHODS AND RESULTS FOR CREDIT TO HOPE FOR GASOLINE AND BUTANE EXTRACTED BY AFFILIATE**

Transcript Pages 6394–6405

Mr. SPRINGER. May I have marked for identification as Exhibit No. 127, this tabulation entitled "Hope Natural Gas Company—Comparison of Methods and Results of Commission Staff's Recommendation and Company's Witnesses' Recommendations for Proper Credit on Account of Gasoline and Butane Extraction"?

TRIAL EXAMINER. It may be so marked.

(The tabulation referred to was marked as Exhibit No. 127 for identification.)

Whereupon,

ERNEST B. BLEASE, a witness appearing on behalf of the Commission, having previously been duly sworn, was examined and testified as follows:

Direct examination by Mr. SPRINGER:

Q. Mr. Blease, referring to the exhibit marked for identification as 127, will you state the purpose of that exhibit which you prepared?

A. I prepared this exhibit from exhibits that have already been admitted in evidence in this hearing, for the purpose of correlating and showing in one place the effect of the exhibit on gasoline that I prepared, and also a comparison of that
6395 effect to the credit that Mr. Rhodes recommends for gasoline extraction by Hope Construction and Refining Company.

Mr. SPRINGER. I offer in evidence Exhibit 127.

Mr. MILDE. No objection except that I would like to ask Mr. Blease a question or two on cross-examination.

TRIAL EXAMINER. Does that complete the direct testimony?

Mr. SPRINGER. Yes, sir.

TRIAL EXAMINER. You may cross-examine.

Mr. SPRINGER. The exhibit was designed to be self-explanatory, showing sources of information, but if you have some additional questions, Mr. Examiner, Mr. Blease will be glad to answer them.

TRIAL EXAMINER. If it is self-explanatory, I don't have any. I haven't had a chance to look it over to see whether it is or not.

Mr. SPRINGER. I know you haven't, and I thought perhaps you would like to have more of an explanation.

Mr. MILDE. Perhaps I can ask a few questions on cross-examination that will help to explain it.

TRIAL EXAMINER. I assume that by referring to these other exhibits, this exhibit will be understood?

The WITNESS. The figures shown on this exhibit were taken from other exhibits and the reference to the exhibit and page number is shown on this exhibit.

* * *

6396 Cross-examination by Mr. MILDE:

Q. On this exhibit 127, as I understand it, the top group of figures under the column headed "Computed Credit to Hope Natural Gas Company" are a summarization of your figures and conclusions in Exhibits 63 and 78, isn't that so?

A. That is correct.

Q. And you show, for example, on the third line, that the average net investment, as you determined it for all of the Hope Construction and Refining gasoline and butane plants was $681,000 in round figures in 1937, and $482,000 in round figures in 1940?

A. That is correct, with the exception of the fact that this only represents the West Virginia plants dealing in Hope Natural Gas Company gas.

Q. That is right.

And you have now excluded the net investment as you determined it of the Kennedy plant as shown on the next line in both 1939 and 1940?

A. That is correct.

Q. And that gives you a balance of net investment to which you have added working capital of $80,000 to give a sum total on which you apply 6 percent return?

A. That is correct.

6397 Q. And is that 6 percent return your determination of what is a proper rate of return for gasoline plants, or is that merely a figure assumed for the purpose of this calculation?

A. It is a figure assumed for the purpose of this calculation.

Q. Then you take the earnings as you adjust them by your revised depreciation rate, and take out the Kennedy plant earnings, in 1939 and 1940, to get revised net earnings of the company for these plants which you have described?

A. That is, the revised earnings over 6 percent on the net investment.

Q. Well, that is the figure you show opposite the side heading "Excess of Above Earnings Over 6 Percent of Net Investment"?

A. That is correct.

Q. Now, in the balance of the figures you give some information as to how matters were recorded on the books, and what Mr. Rhodes' charges are, or his adjustments?

A. Mr. Rhodes' credit adjustments, you might say.

Q. Let me ask you, Mr. Blease, if the royalty recommended by Mr. Rhodes is not shown opposite the side heading, "Total Credit Recommended by Rhodes," a few lines up from the bottom?

A. That is correct.

Q. And that is $215,000 in 1937, and $167,000, in round
6398 figures, in 1940, with other amounts for the other years?

A. That is correct.

Q. Now, you subtract that $215,000 from what figure in order to show your next line, "Difference (Commission Staff over Rhodes)"?

6399 A. I subtract that $215,000 from $510,000, which is the 7th figure above the bottom. It is in connection with the side heading, "Total Credit Recommended by Commission Examiners."

Q. In other words, for the year 1937, the sum total of the examiners' recommendations is that the Hope Company be deemed to have received $510,000 in connection with this gasoline extraction process?

A. That is correct.

Q. And Mr. Rhodes said they should have received $215,000?

A. That is correct.

Q. And the difference between the two figures, then, is your $294,000?

A. That is correct.

Q. Let me ask you if that $510,000, which the staff recommends, isn't practically 70 percent of the plant investment as you determined it for 1937?

A. That is correct.

Q. Now I am slightly puzzled by this next line of yours, Mr. Blease, "Vent Gas Returned Not Adjusted by Rhodes." What is the meaning of that line?

A. Well, in computing the difference between us, that line is shown to take up the greater portion had Rhodes treated the vent gas as a property of Hope Natural Gas Company, instead of treating it as he did——

6400 Q. (Interposing.) As the property of Hope Construction and Refining Company?

A. That is correct. Then our differences would have been those shown on the last line.

Q. And shouldn't you really, to make the last line of this exhibit not misleading, say "Net difference (Commission Staff over Rhodes if Rhodes had treated vent gas as the Commission's Staff has treated it)"?

A. In order to clarify that, let's say that it should read "Difference (Commission Staff over Rhodes had Rhodes considered the vent gas the property of the Hope Natural Gas Company)".

Q. As the Commission's staff has considered it?

A. I have considered it the property of the Hope Natural Gas Company, but under the method that I used, it would have made no difference, because that credit would have come into Hope Construction and Refining Company's books, and would have increased the amount of excess profits passed back to Hope by the same amount as the vent gas credit.

Q. I understand that, Mr. Blease. All I was trying to point out is that that phrase in parenthesis is not complete in that it is not really the "Commission Staff over Rhodes", but the Commission Staff over Rhodes as you have adjusted Rhodes in the preceding line?

A. That is correct. Perhaps it would be clearer to
6401 say that in the third line where I show "difference (Commission Staff over Rhodes)," to add "as recommended by both." Then this next adjustment or next line, showing the vent gas returned not adjusted by Rhodes, would become clear, I think.

Mr. Milde. May I ask whether the Examiner understands that this last line means the difference if Mr. Rhodes' figures, as shown in the third line from the bottom, had been adjusted as Mr. Blease adjusts them in the second line from the bottom?

Is that a correct statement, Mr. Blease?

The Witness. Yes, it is correct, but I still don't think it clarifies it.

Trial Examiner. Well, the difference would be the same in either case, wouldn't it?

The Witness. As the exhibits are now in the record, the recommendations that we make are over the recommendations that Mr. Rhodes has made by the amount shown on the third line from the bottom.

Now I am merely stating that if Mr. Rhodes had adjusted for vent gas, the difference would have been that shown on the last line.

Trial Examiner. But Mr. Rhodes didn't adjust for vent gas?

The Witness. Mr. Rhodes did not.

Trial Examiner. And you did?

The Witness. I did adjust for vent gas, but whether I
6402 had adjusted for vent gas or not, using this method I would
have come out to the same result. It was a debit and credit between two companies.

Mr. Milde. Well, this is just one of those questions where, when you get an exhibit up in a hurry, it is a little difficult always to select quite the right title to express what you have done.

By Mr. Milde:

Q. Well actually, as the figures appear in the two sets of exhibits, Mr. Blease, the difference between the Commission's staff and Mr. Rhodes' figures, as reflected in our exhibits, is shown in the third line from the bottom, right across the page; is it not?

A. It is.

Q. With the exception that for the years 1939 and 1940, as shown in the other Commission's exhibit, the Kennedy plant investment has not yet been taken out, and earnings?

A. For the years 1939 and 1940, the Kennedy plant has been taken out.

Q. In this exhibit?

A. Yes.

Q. But not in Mr. Dunn's exhibits and Mr. Lyon's exhibits, where they used your original figures?

A. That is correct. You will remember that there was a stipu-
lation decided on between counsel while I was on the stand
6403 before, that that was to come out, and in this exhibit I have
taken that out.

Q. So that the figures that should be reflected in these other exhibits on final determination of what the Commission's staff shows are the figures you set out here for 1939 and 1940?

A. To be in accordance with the stipulation

Q. That is right.

Mr. Milde. That is all.

Redirect examination by Mr. Springer:

Q. Will you explain your answer to Mr. Milde concerning the consequences of your adjustment for vent gas in any one of the years by an example, when you say you would have received the same answer in any event?

A. As the books are kept presently, H. C. & R. charges Hope for the vent gas returned, and Hope charges H. C. & R. for boiler fuel furnished in the same amounts with a slight difference in one plant.

In my study I have based the revenue due Hope Construction and Refining to a cost study, and limited the return to a ratio of the net investment. I have selected 6 percent here.

6404 So that, that return would be constant if the value of the plant remains constant, and any increase in revenue would be—any increase in gross revenue—would be that much increase in net revenue, or excess credit. So that, had I not adjusted for vent gas, I would have had that much additional credit on H. C. & R.'s books to come out down here as excess earnings over 6 percent of net investment; and when you combine the earnings of H. C. & R. with the earnings of Hope, it makes a Wash transaction and makes no difference in the final answer of the amount of credit recommended by Commission's staff.

Q. In what line?

A. That is the 7th line from the bottom, side heading, "Total Credit recommended by Commission Examiners."

Recross-examination by Mr. Milde:

Q. Mr. Blease, I think I was mistaken in asking you if the figures in the third line from the bottom were not the ones to be reflected. That is just the difference between you and Mr. Rhodes, and actually the final figures that you recommend are shown opposite the side heading, "Total Credit recommended by Commission Examiners"—isn't that so?

A. That is correct. I understood that you meant that the difference between the two exhibits was the third line from the bottom.

6405 Q. Well, that is the difference between us, but the figures that are to be reflected in the Commission examiners' exhibits as the amount of money Hope is to receive on account of

this gasoline extraction process conducted by the H. C. & R. Company are the $510,000 you show for 1937, ranging down, and up again, and then back to $313,000, as shown opposite the side heading I have indicated?

A. That is correct, and let me state further that for 1937 and 1938, they are the figures used, but for 1939 and 1940, they have been adjusted by the Kennedy plant here.

Q. That is right.

* * *

5663 **TESTIMONY OF HOPE WITNESS COFFMAN ON INVESTORS' APPRAISAL OF COMPARATIVE RISKS OF CAPITAL IN THE NATURAL GAS BUSINESS**

Transcript pages 5663–5725

Direct examination by Mr. COCKLEY:

Q. Mr. Coffman, you have been sworn and you previously testified in this case, did you not?

A. I did; yes, sir.

Mr. COCKLEY. I ask to have marked for identification as Exhibit 27–A, a paper entitled, "Hope Natural Gas Company—Investors' Appraisal of Comparative Risks of Capital in the Natural Gas Business, 1940—(Supplement to Exhibit No. 27)."

TRIAL EXAMINER. It may be so marked.

(The document referred to was marked "Exhibit No. 27–A" for identification.)

By Mr. COCKLEY:

Q. I hand you the paper, Mr. Coffman, marked for identification No. 27–A, and ask you if you prepared that exhibit, and if it contains your direct testimony supplementing
5664 your Exhibit No. 27 previously introduced in this case?

A. Yes, sir; it does.

Q. And the tables included therein weer prepared by you from ordinary statistical sources and in your office?

A. Yes, sir; they were.

Mr. COCKLEY. Mr. Examiner, I think it is unnecessary to ask the witness any questions in explanation of this unless the Examiner has some.

You will see on page 1 of the written statement of Mr. Coffman, a table which contains a summation of the results that he found in 1940, and the averages for the four years from 1937 to 1940. You will recall that his original Exhibit 27 was a study of electric utility operating companies, water companies, manufactured and mixed gas companies, and natural gas companies for the 3-year period, and that the determination of the investors' appraisel of the risk in those companies for the 3-year period, and the average for the 3 years. This exhibit merely adds the

figures for 1940, and makes the average for the four years, and shows in general that while there have been slight changes, in general the same relation between the investors' appraisal of these various companies has been maintained right through the year 1940. I offer in evidence Exhibit 27-A.

Mr. Springer. No objection.

Trial Examiner. Does the City of Cleveland have any
5665 objection?

Mr. Reeder. No objection.

Trial Examiner. West Virginia?

Mr. Koontz. No objection.

Trial Examiner. Exhibit No. 27-A is admitted in evidence.

(Exhibit No. 27-A was received in evidence.)

Mr. Cockley. You may cross-examine.

Cross-examination by Mr. Springer:

Q. Will you please refer to page 2 of Exhibit 27-A? The first paragraph shows a statement by you that, "investors continued to appraise the risk of natural gas companies as a group at a rate considerably higher than for the other divisions of the utility industry studied."

Does that mean that all your exhibit shows for the particular companies selected for your study is that natural gas companies are considered a relatively greater risk than electric companies, and water, and so forth?

A. I would say that that statement means that in the study we made, in which, as you will recall, we tried to get and include in thiss tudy all the companies upon which we could find data which would indicate the investors' appraisal, that that particular risk shows a higher risk factor in the minds of the investors for the natural gas than does it show for the other divisions of the utility industry which I studied.

5666 Mr. Springer. Will you read my question? I think you have answered the question, but I would like to have it read back to the witness.

Trial Examiner. Read the question.

(The question was read.)

Mr. Cockley. Do you mean by that question that that is all that the exhibit shows, and nothing else?

By Mr. Springer:

Q. That is the purpose of the study, isn't it; a comparison study?

A. That is correct, Mr. Springer. All I wanted to make clear in my answer was that going back to the original study, as you will recall, I had gone over all of the various utility companies in these divisions that I have mentioned here, that is, the electric, water, and natural gas and mixed gas, that are reported upon in our services, and as I had explained in my original exhibit, certain of those were eliminated for lack of data which would not permit me to make such a study complete, with the result that I finally came down to the list of companies that was actually included in my first exhibit, and insofar as those companies represent the entire division of the various branches of the utility industry upon which I could get an investors' appraisal, I think it is as complete as I could make it. I don't know whether that still answers
5667 your question, but that is about the only way I can answer it, I believe.

Q. Then your exhibit shows, for the particular companies you studied in these classifications, that the investors' appraisal of risk shows a relatively higher risk for natural gas companies in your particular study than for electric companies in your particular study, and water companies?

A. Yes; I would say that, and qualify it with the statement that the companies given in the various divisions were all the companies in each division that I could find comparable data upon which to make the study.

Q. Now on that point did you take companies for your study, the ones which had bonds, preferred stocks and common stocks held by the public?

A. In each case I took the companies where the great bulk of the capital, whether it be bonds, preferred stock or common, was in securities which were held in the hands of the public as contrasted with some company that belonged to a system where I could not get market quotations on a large part of the capital structure. My study is based altogether upon securities that were in the hands of the public, where I could get fairly reliable market quotations.

Q. Are there any of your 13 natural gas companies in which not 100 percent of the common stock was held by the public?

A. Well, offhand I wouldn't want to say that 100 percent
5668 of the common stock in every case was held, but I would say that a large part of it was held, and that there were sufficient shares traded in the market to give a reliable market quotation.

Q. Now if a major portion of a gas company's securities were

in bonds, not held by the public, it wouldn't be included in your study?

A. That is, if a large portion of the securities were not held such that we could get a market quotation on it, we eliminated that.

Q. Now, if a major portion of a natural gas company's securities were represented by preferred stock and not held by the public, it wouldn't be included in your study?

A. I would like to qualify that to this extent, that generally speaking that is true with one qualification, that if, taking the total capitalization, there were a sufficient number of bonds, preferred stocks or common, held by the public so that a reliable quotation could be secured, I used it. However, if there were some notes, for example, or a very small issue of preferred, which was not in the hands of the public, but that in proportion to the total was very small, then I used it anyway, because taking the total capital I still had a fair representation of the amount of investors' money in the particular company.

5669 Q. Now there were some natural gas companies' securities on which you were unable to secure market prices, weren't there?

A. There were some companies in which a small part of the capital structure there was not a market for, and in that case I made an estimate.

Q. What did you use?

A. In that case we used our experience and our knowledge of the securities, plus making a study of another security we believed to be comparable, which did have a price in the market so it would give us some guide upon which to go.

In most cases, as a matter of fact, they were situations where a stock, for instance, if it was a preferred, had a callable price, or some other guide, and the security was in such position in the capital structure and the earnings of the company were such that we thought we were in no error in taking the call price, if that is the figure we used.

Q. Will you list by name those natural gas companies for which you secured no market price for the securities, and used your estimate?

Mr. Cockley. You mean a market price of all the securities?

Mr. Springer. Just what we are talking about.

The Witness. You are talking of 1940 figures, for the moment?

5670 By Mr. SPRINGER:

Q. Yes; just Exhibit 27–A.

A. Starting with my table marked Statement "D," page 6, the first company there is Duquesne Natural Gas.

In the case of Duquesne Natural Gas there were 124,556 shares outstanding of common stock; there were 2,410 shares of noncumulative convertible preferred \$4 stock; 28,179 shares of \$5 noncumulative preferred; and \$724,500 of general refunding 7's of 1948.

Now, in each case there was a quotation available, so I made no assumption in the case of Duquesne.

Q. You had the market prices for that?

A. There was a market quotation; yes, sir.

Q. Well, will you just give me the names of the companies for which you didn't have market quotations?

A. El Paso Natural Gas is the first one.

In the case of El Paso Natural Gas for 1940 there were 601,594 shares of \$3 par common stock outstanding. The indicated market value of that was \$20,418,000. There was a quotation upon those securities.

There were 14,797 shares of 7 percent cumulative preferred, \$100 par, which amounted to a million and a half, approximately, and there were quotations on that. Then there were also outstanding \$6,000,000 of first mortgage 3½'s of 1953; \$2,900,-
5671 000 of first mortgage 3's of 1955; \$1,445,000 of 3 percent serial notes, due 1941 to 1945; and \$1,000,000 of 2¾ percent serial notes due at the same time, outstanding. Now on the first mortgage 3½'s and 3's, and the serial notes, 3 percent and 2¾, there was no quotation.

Q. Those securities are all held by institutional investors, aren't they?

A. That is right; and in that case I took the par of the particular security, and the reason for that, so far as the notes were concerned, they were very near term maturity so that obviously they would approach par as they came to the date of their maturity; and the first mortgages, 3 and 3½'s, in studying other similar securities we felt safe in taking par.

However, for my purposes, of the total capitalization of \$31,-900,000, almost \$22,000,000 of the total was accounted for with actual quotations, and about 10½ million were on the mortgages and the serial notes upon which there was not a quotation and on which I took the par of the security. So that I had over two-

thirds of the capital structure accounted for with market quotations; and the others, upon which I made an estimate, I felt I had taken a conservative figure.

Q. My information is that the total securities outstanding for El Paso Natural Gas Company are a little over
5672 $18,000,000, and that about $7,000,000 of those are held by the public and about $11,000,000-plus are held by institutional investors.

A. Are you there including the common stock; is that everything?

Q. Yes; total outstanding securities.

A. That probably is right. I don't know your exact figure, but I would assume that that was about right, but for my study, so long as there were sufficient shares traded in on the market to give a bona fide quotation, I felt that was a reliable index of what the investors said, even though an institution might buy to hold, or for that matter might buy to trade in from time to time.

5673 Q. Then you had an elastic standard, it wasn't necessarily market quotations on the major portion of the outstanding securities of natural gas companies that you sought, it was some representative figure that you were after?

A. No; I wouldn't say that, Mr. Springer.

Q. Well, didn't you just say that of the outstanding securities of El Paso Natural Gas Company, of more than $18,000,000, $6,000,000 of that was held by the public which represented preferred and common stock, and that the remaining $11,000,000-plus, which was bonds and notes was held by institutions? Now, there the major portion of the outstanding securities is held by institutions, so you substituted something for the securities held by institutions where you couldn't secure market quotations?

A. Well, just going back for a minute, my figures don't quite line up with yours. In the first place the total indicated market value, according to the figures I have, I have given you for 1940 on El Paso was $33,300,000.

Q. We aren't talking about the same thing. I am talking about the same thing. I am talking about total outstanding securities, and you are talking about total indicated market value.

A. But my point is that to appraise the value as the
5674 investor sees it, of the total capitalization, you have to take some guide for each, and in the case of the great bulk of this item, which refers to common stock, I took market quotations and there are ample shares of common stock of El Paso

traded to give a good investors' appraisal of that particular portion of their capital structure. So whether or not the banks or insurance companies or some large individuals hold a certain portion of that, makes no difference as long as there was ample trading to get a quotation.

Q. Well, I just wanted to get your standards; that is one of your standards?

A. Yes; I took the market quotation, and whether an institution held these or not, I assume in practically every case—as a matter of fact, I know in practically each of these cases—there are one or more branches of the capital structure that are held by institutions, with respect to all these companies. We are advocating in many cases that they buy them. But I don't see that that has any bearing on my study so long as there were enough of the shares traded for me to get an idea of what you must pay if you go into the market to obtain certain additional shares or certain additional bonds.

Q. Well, your standards are limited by what is available
5675 in the market, and whether quotations are available or not, and then the additional estimates that you make to get a study of each gas company?

A. Where there is not a quotation; but in each case, as I say, that is on a small fraction of the total, in each of these cases.

Q. Will you continue with the list of companies where you couldn't get market quotations on the security?

Mr. Cockley. Do you mean on all the securities?

Mr. Springer. No.

The Witness. If I may, I might comment on each of these. The Houston Natural Gas does not fall into your classification. There were quotations on everything. Interstate Natural Gas—also no problem.

Mr. Cockley. Do you mean by that that there were quotations on all classes of securities?

The Witness. Yes; I merely want to account for these companies as I go through.

By Mr. Springer:

Q. For the Houston Natural Gas Company, the total outstanding securities were a little over $5,000,000, all held by the public, and that is the reason you secured the information?

A. Well, I want to make my point clear again. I am not saying in any one of these things that all the securities—where I say

5676 there is a market quotation—were held by the public, unless you include as the public, the banks, the insurance companies and every other investor. So far as I am concerned, any securities that were issued by any company, which are not in turn held by another company, which makes it a holding company arrangement, are securities in the hands of the public. It makes no difference to me whether they are insurance companies or not.

Q. I see. Your classification of institutional investors puts them in the public investor class?

A. Exactly.

Q. As distinguished from the affiliated investors?

A. Absolutely; yes, indeed, because to me as an investment advisor, they are just as much a part of the investing public as Tom, Dick, and Harry.

Q. Well, they must be fairly good securities, or you wouldn't advise an institution to buy them?

A. Well, that is true, they have to be in most cases to qualify as a legal investment, as you know. Interstate Natural Gas—no problem. We come to Lone Star Gas Corporation——

Mr. Cockley (interposing.) Mr. Coffman, for the record, when you say "no problem," that doesn't mean anything. Can't you explain more specifically?

The Witness. In the case of the Interstate Gas Company, we had quotations so that no estimate was made.

5677 In the case of Lone Star Gas Corporation, there were outstanding approximately 5,500,000 shares of no par common stock, upon which we had reliable market quotations, and that accounted for approximately $50,582,000 indicated market value. There were also outstanding 3½ debentures of 1953 to the amount of $20,000,000, upon which there were reliable quotations which gave an indicated market value of $21,500,000. There were also some notes, 2⅞ percent, due 1945, in the amount of $4,200,000. On those notes, they were all held by a single investor, and there was no question, so I took those at par $100.

By Mr. Springer:

Q. By a single investor, do you mean an institutional investor?

A. In this particular case, I think it was. So that here, out of a total indicated market value of $76,287,000, I have accounted for about $72,000,000 by actual quotations. So that there, by far the greatest amount of the capital structure was accounted for by indicated market value, as based upon the investors' quotations in the market.

In the case of Memphis Natural Gas Company, there were 918,680 shares of common stock, $5 par value, outstanding, upon which there were market quotations, giving a total indicated market value of $4,023,000.

5678 There were also outstanding some 3 to 3½ percent promissory notes payable to banks serially in the amount of $1,700,000. Obviously, there was no quotation on those notes, and there was no reason to take them at other than par, which is the figure that I used, $100. So that, in that case, the great bulk of the indicated market value was based upon investors' quotations.

Q. And for Mountain Fuel Supply, their common stock is all held by the public?

A. In the case of Mountain Fuel Supply, all the stock is held, and I had quotations so I accounted for all that.

Q. Is that the same for National Fuel Gas Company?

A. Yes; the same is true there. In the case of Northern Oklahoma Gas Company, there were 189,300 shares of common stock, $1 par value, outstanding, upon which there were market quotations. There was also a first mortgage serial note which was held privately in the amount of $550,000, and upon that of course there was no quotation, and I took that at par; there was no reason for such securities to sell at anything in excess.

Mr. Cockley. What was the interest rate on that note?

The Witness. I believe that was 5 percent. Yes; 5 percent I am pretty sure.

5679 Now, in the case of the Northern Utilities Company, although there was common stock, 7 percent preferred and some first mortgage convertible bonds and income debentures outstanding, there were quotations on all branches, so I made no estimate there.

In the case of Oklahoma Natural Gas, there were 550,000 shares $15 par common stock outstanding, upon which there were quotations.

There were 58,000 shares of 5.50 convertible prior preferred no par upon which there were quotations, and 91,055 shares of 3 cumulative preferred, $50 par, upon which there were quotations.

There were $16,800,000 of first mortgage 3¼'s due in 1955 upon which there were quotations, but there were bank loans payable serially to 1946 of $5,500,000, upon which, of course, there were no quotations. So I took that at an estimated figure of $100 to complete it.

By Mr. Springer:

Q. Was that $2\frac{3}{4}$ percent?

A. I don't recall what that percent was. Three and three-quarters percent was the rate on the bonds, the first-mortgage bonds, and I do not have the rate that is required upon the bank loans.

Mr. Cockley. Do you have it, Mr. Springer, in a circular or in some form?

5680 The Witness. I don't have that bank loan rate.

Mr. Springer. That isn't important, go ahead.

Mr. Cockley. I was going to admit whatever figure your information shows, if you have it.

The Witness. Well, the $3\frac{3}{4}$ rate applied to the first mortgage bonds. I don't know what was the rate on the bank loans. In the case of the Pacific Lighting Corporation, there were 1,608,631 shares of common stock upon which there were quotations. There were 200,000 shares of \$5 preferred upon which there were quotations. There was some 6 percent preferred \$25 par of the Southern California Gas—897,564 shares—upon which there were quotations. But there was a long term serial bank loan from 1942 to 1949 of \$6,000,000, upon which there was no quotation, and I took that at par \$100.

By Mr. Springer:

Q. Do you know if that was a 3-percent note?

A. I may have that figure. No; I don't have that figure, but 3 percent would sound very reasonable to me.

Mr. Cockley. Have you the figure there? You say it is 3 percent?

Mr. Springer. That is my information.

Mr. Cockley. We will accept that.

5681 Mr. Springer. Now, will you proceed?

Mr. Cockley. May I just ask a question to clarify this?

Mr. Springer. Certainly.

Mr. Cockley. How much, out of the total of almost \$166,000,000 indicated market value for Pacific Lighting Corporation have you not had market quotations for?

The Witness. It was merely on those bank loans of \$6,000,000 which I took at par. Everything else was accounted for by a quotation.

By Mr. Springer:

Q. You show investors' appraisal for that company of 5.66 in your exhibit?

A. Yes, sir. In the case of Southern Natural Gas Company, the common stock—691,970 shares outstanding—was accounted for by quotations. There were some Pipe Line 4½'s due in 1951, outstanding, in the amount of $11,300,000, approximately, upon which there were quotations.

There were some other first Pipe Line 4½'s due in 1952 in the amount of $528,000, and those I took at 105½ because they had a long enough maturity date, in so far as the earnings secured them, to make them run above par, in comparison with other similar securities.

There were some adjustment mortgage 6's due in 1960 in the amount of $5,700,000, and those were accounted for by
5682 quotations.

Q. How did you get the quotations on $3,000,000 of those held by affiliates?

A. What, the adjustments?

Q. Yes.

A. As I have explained before, I didn't, where they were held by affiliates, as long as a sufficient portion of any branch of the capital structure was traded in the market so that I could get a security price, I took that. I don't mean to infer that in each of these cases, the entire amount of stock that is issued and outstanding or all the bonds that are issued and outstanding were necessarily traded in the market. I am not saying that, I am merely saying that there was enough trading in each one of the securities upon which I took a price to give me a reliable market quotation.

Q. Is this the fact with regard to Southern Natural Gas Company, that the adjustment mortgage 6's due in 1960 of $5,700,000, almost $3,000,000 of that was owned by the public, a slight amount held by institutions, and then nearly $3,000,000 held by affiliates?

A. I would say that figure is approximately correct. I think I have some details on that.

Q. And the portion that was held by the affiliates, you didn't consider?

5683 A. Yes; I considered it, but on that portion held by the affiliates I took the market quotation that was available and merely multiplied the total amount of bonds outstanding by the market quotation to see what the indicated market valuation of the whole was.

Q. Did you include in your indicated market value of capital the $3,000,000 worth of those adjustment mortgage 6's, due 1960, in your figures?

A. In every one of these cases I have included the entire capital structure. If I had a market quotation to go on, then I applied that against the total amount of securities issued and outstanding, regardless of how they were held.

Q. I see. If you had a market quotation on a segment, you applied that to the total outstanding security of that class?

A. That is correct.

Mr. COCKLEY. That isn't a fair statement of his testimony. He said if he had a market value on a sufficient number of shares to show a real market, then he applied that market price to the whole. I don't want the record confused on that.

By Mr. SPRINGER:

Q. In your opinion, a sufficient amount of a given class of securities is what, 50 percent or more?

A. Well, what I did was not look at the given individual
security, for instance such as a preferred stock or a bond
5684 or serial note; what I did was to take the total indicated
market value of all the capitalization, and if I had 70 percent or better of that accounted for with quotations, I thought it was a very reliable indication of the investors' appraisal.

Q. Was your minimum 70 percent?

A. No; I had no minimum, because in each of these cases it runs higher than that, in every case. In other words, if the great bulk of the securities, and in most cases that relates to the common stock, had quotations to be reliable, you account for the great bulk of the total indicated market value in each one of these, so I thought it was a very reliable guide. As a matter of fact, I don't know of any other guide that could be used.

Q. When you speak of quotations, you are excluding the estimates that you made of the other type of securities not held by the public or institutional investors?

A. Let me make my point clear by a case we have already talked about. Take Pacific Lighting for example. Pacific Lighting had a total indicated market value in 1940 of $166,000,000, approximately. The only figure included in that entire total,
based upon an estimate, is for the bank loans in the amount
5685 of $6,000,000, and I took those at par. So it is $6,000,000
estimated against $166,000,000 total, and that was my comparison all the way through.

Q. Now, can you make a similar comparison for El Paso Natural Gas where you had quotations only on about \$7,000,000 out of \$18,000,000 total outstanding securities?

A. No; I don't admit that, that statement is incorrect. The common stock outstanding was 601,594 shares, and there were market quotations on that which ranged from 41⅞ to 26, and I took an average of 33.94 as the average price for the year per share. That amount gave an indicated market value for the total common stock issued and outstanding of \$20,400,000 as a beginning figure.

Then there were some 7 percent preferred in the amount of 14,797 shares outstanding, which gave another \$1,570,000.

So that is about \$22,000,000 accounted for out of a total indicated \$33,000,000 of capital.

Now, the approximate \$11,000,000 that I had estimates on were on those serial notes which couldn't possibly be worth more than par, so I accepted them at par; and the first mortgage bonds, which I also took at par. So that certainly if I made an error at all it was on the conservative side.

Q. So, on your formula where you have an estimate for \$11,000,000 of bonds and notes, and the quotations you had on the preferred and common stock for that company, it gave you
5686 what you considered a larger portion of the indicated market value of capital with quotations than without; so you included it in your study on the same formula that you have the other companies?

5687 A. With one further qualification, that it is my conviction and contention that on the serial notes, which were taken at par, in a company like El Paso there can't be any possible question about those notes at par. So that although it is an estimated figure, it is as reliable as any market quotation you can get. The only thing is that when a person takes a note, they don't buy and sell it, usually; they hold it.

Q. Now you were stating the exceptions where you didn't have market quotations, and you had finished Oklahoma Natural Gas Company, had you not?

Mr. Cockley. He had finished all of them.

The Witness. I think I had come down to the last, which was Southern Natural.

Trial Examiner. You got down that far, anyway.

The Witness. Well, I think I was just up to Southern Natural.

In the case of Southern Natural—yes: I gave that, I have covered that, also.

Mr. Cockley. How much of that did you have to estimate out of a total appraisal of $31,000,000?

The Witness. Of a total indicated market value of $31,000,000, it was all accounted for except $1,000,000. There was $1,000,000 that I estimated, and $30,000,000 that was actually based
5688 upon quotations, and those estimates were again on the first pipe line 4½'s of 1952, and there I took the call of 105½; and on the collateral notes due serially from 1941 to 1942 of $600,000, I took those at par.

By Mr. Springer:

Q. Will you state for clarification purposes your formula for securing indicated market value of capital, Mr. Coffman?

A. My procedure was to take, in each of these companies, the average of the various securities and long-term bank loans that were outstanding in 1940, including all of the common stock, the preferred stock, the various mortgage bonds, the various debentures and other bonds, any notes, and the bank loans.

In each case where I could find that there was a market quotation on the greater portion of the total outstanding capital structure, I used market quotations wherever they were available on each of the securities mentioned. Where there were no quotations, based upon my experience and knowledge of such securities I made an estimate, which in each case was par or greater for the security. With respect to those securities, which for the most part were bank loans, and a few bonds, where I did make an estimate, they were accounting for a very small fraction of the total indicated market value except in the case of El Paso, where there was a larger percent.

5689 Q. And did I understand you to say that where a class of security was held partially by the public and partially by institutional investors, and the remainder by affiliates, that you took a market quotation and then an estimate for the remainder, to get a figure on the total of that outstanding class of securities?

A. No; I would like to make my point clear on that question.

Trial Examiner. You only required one quotation for the whole class of stock?

The Witness. Yes, sir; if there were enough shares or bonds traded so I had an indication of what the investors that were trading in this thing said it was worth, then it made no difference whether an insurance company or a bank had some of these securities and continued to hold them year in and year out.

By Mr. Springer:

Q. Or an affiliate?

A. In the case of an affiliate, it made no difference, because if there were enough of the shares outstanding, not held by affiliates, to give me a quotation, then I said that that market quotation, times the total amount of that particular security issued and outstanding, gave me the indicated investors' appraisal.

Q. Now for the Southern Natural Gas Company, first
5690 mortgage sinking fund 4½ percent, due 1952, there was no market quotation, was there?

A. No, sir; that was $528,000, and I took that at the estimated figure of 105½, which is what that type of bond, which had a market quotation, was selling on a yield basis in the market at the time.

Q. Now for $2,907,000 of the approximately $6,000,000 of adjustment mortgage 6 percent, due 1960, held by affiliates, you had no market quotation on that, of course?

A. The adjustment mortgage 6's due in 1960—there was a market quotation, because they were not all held by affiliates. There was a market quotation of 102½ as a high; and 90 as a low, and the average was 96¼.

Q. Of course, there were $3,000,000 held by affiliates, and you translated your market quotation for the total sum of $5,771,000 of those adjustment mortgage 6's, due in 1960?

A. If I can say it again, if, let us say, the Chase National Bank holds some of these bonds, and they continue to hold them in their portfolio, and never trade, but I, and a group of other individuals, hold some of those securities and trade in them day in and day out, then I assume that Chase National Bank, if they wanted to sell theirs, would have to consider the same kind of quotation, if they came into the market, that I do going in day in and day out.

Q. And the total included $3,000,000 held by the
5691 affiliates?

A. Exactly.

Trial Examiner. You can't get a quotation on securities that aren't sold?

The Witness. No; but as long as there are securities traded, that is the only guide I have got to go on to know what you, as a holder who doesn't trade, will have to consider if you do want to trade.

By Mr. Springer:

Q. For this particular period of time?

A. Yes.

Q. Now there were $600,000 of 4 percent notes, 1939–1942, held by institutional investors, and there was no market quotation on that so you made an estimate, I take it?

A. I took those at par; yes. That accounted for $600,000 out of $31,000,000.

Q. Now for the common stock of Southern Natural, approximately half of it was held by the public, and then slightly more than half held by affiliates. So you took the market quotation and applied it to the total $10,000 worth of common stock, did you not?

A. I took the quotation that was available on the shares traded, and applied it against the total amount of issued and outstanding capital, that is right.

Q. Now do you know what Moody's ratings are on the

5692 bonds that you included in your natural gas company list for your study here in Exhibit 27–A?

A. Well, I don't happen to know what Moody's are. I know what ours are.

Q. Do you mean that there is a wide variation in the trade between your ratings and Moody's?

A. Not a wide variation but from time to time there is. The chief difference, however, is that we use one kind of symbol and they use another. We talk in terms of A–1 plus, and they talk in terms of Aaa.

Q. Could you make a general statement that is comparable to this statement that a majority of the natural gas companies that you have selected for your study, have bonds rated by Moody at A or lower?

Mr. Cockley. I object to that. I don't think a general statement of that kind means anything. Bond ratings are individual matters, obviously, and it just doesn't mean anything.

Mr. Springer. Of course, it is a preliminary step before the meaning is revealed. It will dawn on you pretty soon.

Trial Examiner. The objection is overruled.

The Witness. Well, I will answer your statement this way, that so far as Standard and Poor's ratings are concerned, that many of these companies have bonds outstanding, and those bonds are rated A or in the B classification.

5693 By Mr. Springer:

Q. Now the electric companies which you have selected for your study, the bonds which are outstanding for most of these

companies are Aa and Aaa bonds, are they not, on Moody's rating? What are they on yours?

Mr. COCKLEY. Let's have one question at a time, please.

The WITNESS. In the case of the Boston Edison, which was included, they had $53,000,000 of bonds outstanding, first mortgage series A, 3½'s, due 1965. Those were A-1 plus.

By Mr. SPRINGER:

Q. Is that the highest rating you give?

A. That is the highest rating we give.

Q. Is that true of all the rest of the electric companies you have listed in your study?

A. Well, they vary, they are not all in the A-1 plus class by quite a margin.

TRIAL EXAMINER. Are these Standard ratings?

The WITNESS. These are Standard and Poor's corporation ratings—that is my firm. I have already qualified or made the answer that on Moody's ratings I don't have them with me, and I don't know. So if you want to know about ratings, you will have to take my ratings.

By Mr. SPRINGER:

Q. Could we have this agreement, that the Aaa Moody
5694 rating is the same as your A-1 plus?

A. Generally so, we are not far apart.

Mr. COCKLEY. I submit that the witness ought not to be compelled to use a competitor's ratings.

TRIAL EXAMINER. I think he should be familiar with them.

The WITNESS. I am familiar with them on the basis that I know that our ratings don't vary greatly from theirs, but the symbols are different.

By Mr. SPRINGER:

Q. Is this a fair statement, that the electric companies which you have selected for your study, which have bonds outstanding, that those bonds have a much higher rating, either by your organization or Moody's, than the bonds of the natural gas companies which you have selected for your study?

Mr. COCKLEY. Well, I object to the question in that it applies to a particular selection of companies, and the witness has carefully explained from the beginning that he used all of the companies on which he had available data, and he made no selection, and I don't like to have that included in there. If he wants to say the companies that appear in here, it seems to me perfectly

proper, but if there is any emphasis placed on "which you selected," with the inference that he has picked companies——

Mr. SPRINGER (interposing). We have already developed the basis of his selection. Now he has 13 natural gas companies
5695 in his study, and 7 electric companies in his study, and he makes a comparison. I am just asking him to compare the bond ratings of that group by electric and gas.

Mr. COCKLEY. I have no objection to that.

The WITNESS. Generally speaking, the bond ratings on the electric operating utilities as a class would be higher than bond ratings in the natural gas industry, but obviously that indicates the difference between the two types of investors' appraisal. In one case you can actually sell an A-1 bond and get by with it, and in the other case you can't, or they would if they could.

By Mr. SPRINGER:

Q. Is it a fair statement that natural gas bonds are relatively short-lived bonds, say around 15 years?

A. Well, generally in the natural gas industry that tends to be true, because there you have a wasting asset, and obviously you couldn't issue a bond for a longer life than you thought the asset was going to last.

Q. Is it generally true that the electric bonds are issued for 25 or 30 years?

A. Usually many of the electric bonds are longer term maturities, but there again, there is a difference in the industry. In one case it is a wasting industry, and in the other it isn't.

5696 Q. On page 6 of your Exhibit 27-A you show in the last line a figure excluding Pacific Lighting Corporation. What was the purpose of excluding Pacific Lighting Corporation?

A. Well, as I pointed out in my first original exhibit, the Pacific Lighting Corporation was an unduly large company. From the standpoint of size and no other, it was not in line with any of the other companies——

Q. (Interposing.) Is size important?

* * *

The WITNESS. Well, I will answer your question of size in a minute. The nature of the territory that was served, the type of service rendered, and so on, were important, but the main thing was that in taking any group of companies for a comparison, where one item stands out so heavily in the total that it unduly weights the average, from a statistical standpoint, as I think we all know, it is unsound. So I showed it both ways, I showed

it with the inclusion and with the exclusion. Size generally has a bearing on the extent to which one would consider it. Otherwise, it is just one of the factors I look at; I don't give it any more weight than anything else, particularly.

* * *

5697 The Witness. Further, I don't think I can make any better direct answer than what I originally stated on page 16 of the original exhibit, wherein I made this comment also, I think, to the same kind of question. I say here:

"Included in the above group of natural gas companies is Pacific Lighting Corporation. This company, through subsidiaries, distributes natural gas to 272 cities and towns in Southern California, including Los Angeles. Its subsidiaries serve about half the population of the State. Market prices of the securities of these operating companies are not available. In the absence of these, this holding company was treated as a single operating company in the above group. As a result, its indicated market value is nearly 40 percent of that of the entire group of natural gas companies.

"This gives entirely too much weight in the above table to a purely distributing company. Pacific Lighting Corporation owns no gas-producing facilities. It does not run any of the risks of a producing and transporting company, as does the Hope Natural Gas Company. It purchases its gas from independent oil and gas producers operating in the immediate territory
5698 served by it, where the actual and potential reserves are the greatest in its history.

"For these reasons, the risks of capital employed in this company more nearly approximate those of strictly distributing companies serving manufactured or mixed gas. Comparison of the investors' evaluation of the risks of this company as compared with the risks in the manufactured and mixed gas companies set forth above is as follows." Then I went on to show the Pacific Lighting Corporation separately and then the manufactured and mixed companies as a group.

5699 Q. Did you know that Pacific Lighting Corporation's system was an integrated system of approximately three to four hundred miles extending from the center of California down to the southern portion of California?

A. I know it serves that general area.

Q. Do you know that it has 1,600 miles of main transmission line?

A. I know it has transmission lines, but it still has to buy all of its oil.

Q. Do you know whether it has 1,600 miles of transmission line?

A. If you want to get the exact figure, I will check it. [After a pause.] It has properties including 240 miles of field gathering lines, 1,600 miles of transmission line, 11,400 miles of distribution line, and 24 miles of leased line.

Q. Do you know that one of the companies in that group, the Industrial Fuel Supply Companay, purchases, compresses, and transports gas for its affiliates in that integrated system?

A. Well, according to my figures here, the Industrial Fuel Supply Companay operates as a nonutility company and provides gas either for compression, transmission, or sale of natural gas under special contract, and is not engaged in the
5700 business of supplying gas to the public.

Q. Could you get the complete information and check me on whether or not the Industrial Fuel Supply Company purchases, compresses, and transports gas for its affiliated companies in that integrated system, in addition to these special contracts that you mentioned?

A. I think I can find that out.

Mr. COCKLEY. I certainly object to asking the witness to go out and make an investigation and come back here and testify.

Mr. SPRINGER. I just asked him to check me. I would be willing to show him the source of this at recess.

* * *

By Mr. SPRINGER:

Q. Do you know that the integrated system of Pacific Lighting has 18 field compressor stations with a capacity of 50,000 horsepower?

A. Yes; I know that.

Q. Do you know they have 21 booster stations with a
5701 horsepower of 19,000?

A. Yes; I know that.

Q. Do you know that they have 37 low-pressure and 79 high-pressure gas storage holders with a total capacity of 120,000,000 cubic feet?

A. Approximately 120,000,000; yes, I know that.

Q. Do you kno wwhen the Pacific Lighting System was converted to all-natural gas?

* * *

A. I have it here. It was 1927.

Mr. COCKLEY. That is it was converted from manufactured gas to natural gas?

The WITNESS (reading). "Natural gas first introduced in the Los Angeles metropolitan area in 1913 was served by the
5702 subsidiaries mixed with manufactured gas until 1927, when straight natural-gas service was inaugurated throughout the system."

By Mr. SPRINGER:

Q. Now, Mr. Coffman, do you know that the Pacific Lighting system owns two gas-producing fields?

A. Do you include in there Southern California Gas Company's holdings?

Q. Well, in the integrated system it would be included; yes.

A. All that has is one dry well, if you mean to include that.

Q. Doesn't your information show that there are two gas-producing fields held by the Pacific Lighting system? Do you know that, as you have stated, they purchase most of their requirements from three areas, the San Joaquin Valley area, which is hundreds of miles from Los Angeles; they purchase their natural gas from the coastal area, which is also many miles from some of the distribution centers, and they purchase natural gas from a basin area near Los Angeles; do you know that?

A. Generally.

Q. Of course they have to use those 1,600 miles of main transmission line to get the gas to market?

A. That is correct.

5703 Mr. COCKLEY. Well, just a minute. Are you testifying or are you asking the witness what he knows about that?

Mr. SPRINGER. He said yes.

Mr. COCKLEY. Did you answer the question?

The WITNESS. Generally; that is correct.

By Mr. SPRINGER:

Q. Mr. Coffman, you omitted from your study, Exhibit 27-A, the Arkansas-Louisiana Gas Company which has total outstanding securities of $34,000,000, all held by institutions and affiliates, didn't you?

A. The Arkansas-Louisiana Gas Company was eliminated for two reasons; first, the common stock was all owned by the Arkansas Natural Gas Corporation, but for another important reason, which was that 70 percent of the holding company's revenue comes from oil operations, it doesn't come from the gas business at all.

Q. Now, do you know that the Arkansas-Louisiana Gas Company has first mortgage bonds, 1940–1944, which sold in 1939 to yield 2.75 percent?

A. No; I don't know that right now. I don't have those figures here.

Q. You omitted from your study the Atlantic Seaboard Corporation which has total outstanding securities of $14,000,000. I suppose because it is all owned by affiliates?

A. I guess I eliminated that for another reason. We
5704 don't carry it in our service. Apparently there is no investment interest in it at all.

Q. Do you mean that if you don't carry it in your service, there is no investment interest on it?

A. We carry all the corporations in our service upon which we have any demand, and we have probably as large a list of investors as anybody in the country. I mean that is our whole basis for selecting the companies in our service. If we have a demand from any of our clients or any outsider, we try to get the information.

Q. Of course, if all the outstanding securities are held by affiliates as in this case they naturally wouldn't be any investment interest.

A. There wouldn't be any demand for information, and we don't have it and probably couldn't get it if we tried.

Q. And that is just another limitation of your study; you don't have complete information?

A. I made that announcement in my original statement, that I took only the companies we covered.

* * *

Q. Now, Mr. Coffman, you omitted from your study
5705 Cabot, Inc., which has total outstanding securities of $4,000,000 held by institutions and affiliates, did you not?

A. Yes; that is not included in the study.

Q. Now, for Canadian River Gas Company, which you omitted, the total outstanding securities are $6,000,000, all held by affiliates?

A. Well, that is according to my recollection; yes. I don't have anything on that.

Q. Now, for the Carnegie Natural Gas Company, which you omitted, there is $300,000 worth of common stock held by affiliates?

A. Well, I don't have the information here on that company. I don't know, really.

Q. Well, it is not included in your study?

A. That is correct.

Q. And you omitted from your study the Chicago District Pipe Line Company with $2,600,000 of total outstanding securities held by affiliates?

A. That company is omitted—I don't know about your figures.

Q. And you omitted the Cincinnati Gas Transportation Company with $6,800,000 of total outstanding securities held by affiliates?

A. Well, that company is omitted. Again, I don't know the figures.

5706 Q. You omitted the Cities Service Gas Company, with total outstanding securities of $73,000,000, $33,000,000 of which are held by institutions and $40,000,000 by affiliates?

A. That company is omitted—I don't know the figures.

Q. And you omitted from your study the Colorado Interstate Gas Company with total outstanding securities of $13,200,000 approximately, $8,800,000 of which were held by institutions and $4,300,000 of which are held by affiliates?

A. That company is omitted—I don't know the figures.

Q. You omitted from your study Consolidated Gas Utilities Company, with total outstanding securities of $8,000,000?

Mr. Cockley. Where is that? Is that in New York? What Consolidated Gas Company are you referring to?

Mr. Springer. That company is engaged in the production, transportation, and wholesale of gas in western and northern Oklahoma and central and southeastern Kansas.

The Witness. That company is omitted—I don't know the figures.

By Mr. Springer:

Q. Do you know that almost $8,000,000 or a major portion of those securities are held by the public?

A. I don't know that at the moment.

Q. Your study omitted the East Ohio Gas Company

5707 which has $38,500,000 total securities outstanding, all held by affiliates, didn't it?

A. That is not included—I don't know the figures.

Q. And of course the Hope Natural Gas Company, with almost $28,000,000 total outstanding securities held by an affiliate wasn't included?

A. That is not included—I don't know the figures.

Q. The Kentucky-West Virginia Gas Company, with total outstanding securities of $9,600,000 held by affiliates, was omitted?

A. That is not included—I don't know the figures.

Q. And you omitted Manufacturers Light & Heat Company with total outstanding securities of $22,500,000, all held by affiliates?

A. That is not included—I don't know the figures.

Q. And your study omitted Michigan Gas Transmission Corporation, with total outstanding securities of $8,700,000, all held by affiliates?

A. That is not included—I don't know the figures.

Q. And your study omitted Mississippi River Fuel Corporation with $16,400,000 total securities outstanding, $9,800,000 of which are held by institutions and the remainder held by affiliates?

A. That company is not included—I don't know the figures.

5708 Q. Do you know that the Mississippi River Fuel Corporation has $2,200,000 of notes held by institutions with interest at 2.75?

A. I don't know that.

Q. Now, your study omitted Montana-Dakota Utilities Company with total outstanding securities of $28,399,000, $24,400,000 of which were held by the public and $3,900,000 held by institutions?

A. I omitted that because 25 percent or better of its business is electric, and I couldn't segregate its income.

Q. Now, your study omitted the Natural Gas Company of West Virginia, with total outstanding securities of $5,300,000 held by affiliates?

A. The company was omitted—I don't know the figures.

Q. And your study omitted the Natural Gas Pipe Line Company of America with total securities outstanding of $51,400,000 all owned by affiliates?

A. The company is not included—I don't know the figures.

Q. Your study omitted New York State Natural Gas Corporation with securities outstanding of $6,590,000, all owned by affiliates?

A. That company is not included—I don't know the figures.

Q. Your study omitted Northern Natural Gas Company
5709 with securities outstanding of $41,200,000, $22,000,000 of which is held by institutions and more than $19,000,000 of which is held by affiliates?

A. That company is not included—I don't know the figures.

Q. Do you know that the first mortgage sinking fund 3¼'s due 1954 of Northern Natural Gas Company—$16,000,000 worth—held by institutions sold in 1939 to yield 3.25 percent?

5710 A. I remember something about that issue, but I don't know the specific figures.

Q. Do you know that the Northern Natural Gas Company has notes, 1940–1946, in the amount of $6,000,000 held by institutions with an interest rate of 2.125 percent?

A. I don't.

Mr. Cockley. I object to that. There is no point in all this interrogation about specific securities without any question as to what they are a lien upon, what proportion of the total assets of the company they represent, what the dates of maturities of many of them are, and it is wholly disassociated from the properties and the business upon which they are a lien.

Mr. Springer. I just stated all of those dates of maturity.

Trial Examiner. I assume that the purpose of the questions is to test the knowledge of the witness. Certainly it won't be evidence of anything when the witness answers each time that he doesn't know what the figures are.

Mr. Cockley. Well, if the purpose of it is to test the knowledge of the witness about apparently a lot of companies which, under the very term of the question and the limitations that the witness had imposed upon him by the necessities of having a market, show that most of these companies were perfectly properly excluded by him just because he couldn't get a market on them, that is
5711 all. Now when it comes down to these specific securities, this witness isn't testifying here as to the rate for short-term bond money or for short-term obligations of any kind, or for bond obligations of any kind, or anything else. He has done a statistical job, that is all. So when you go to inquire about these mortgages and short-term loans and the rate of interest on them, isolated from all other securities, it has no pertinency at all to his direct examination.

Mr. Springer. We are glad to know it is purely a statistical job, but we are entitled to test the basis of the selection of information to get those statistics.

Mr. Cockley. I would be glad to have you state how you think the witness can take into consideration capital securities which have no market when he has undertaken to determine the investors' appraisal as shown by markets.

Mr. SPRINGER. Of course. I have revealed several companies here with securities in the hands of the public which would show a market value.

Mr. COCKLEY. I haven't heard one.

TRIAL EXAMINER. Objection overruled.

By Mr. SPRINGER:

Q. Now your study omits North Penn Gas Company, with total outstanding securities of $7,200,000, $3,400,000 of which are held by the public and $605,000 by institutions, and the re-
5712 mainder, in excess of $3,000,000, held by affiliates, is that right?

A. The North Penn Gas Company was not included in the study because all the common and half the preferred is owned by the Penn Gas & Electric Corporation, and the balance is owned by the Penn Gas & Electric Company, and there were not facts enough to make any conclusion at all.

Q. Now your study omits Ohio Fuel Gas Company, with total outstanding securities of $71,000,000, 4½ million of which are held by institutions and the remainder by affiliates, is that right?

A. That company is excluded; I don't know about the figures.

Q. Your study excluded Panhandle Eastern Pipe Line Company, with total outstanding securities of $54,400,000, $13,500,000 of which are held by the public, $11,250,000 held by institutions, and the remainder by affiliates, is that right?

A. Panhandle Eastern was eliminated, that is just a straight pipe line company.

Q. What do you mean by a "straight pipe line company"?

A. It is just a transmisison and producing company, it is what we call a long distance pipe line company.

Q. Do you know whether or not any of the companies to which it sells gas are affiliated?

A. The company is partly owned by Columbia Gas &
5713 Electric, and the rest is owned by the Missouri-Kansas Pipe Line Company.

Mr. COCKLEY. Is there any market for all of its securities?

The WITNESS. There is a market for some of its securities, but not for the majority, they are held by the Columbia Gas & Electric and the Missouri-Kansas Pipe Line Company.

By Mr. SPRINGER:

Q. Do you know that Panhandle Eastern Pipe Line Company's first mortgage and first lien 3 percent, 1960, in the amount

of $12,000,000, owned by the public, sold in 1941 to yield 2.87 percent?

A. I don't recall what the figure was.

Q. Do you know that the public owns a million and a half dollars' worth of common stock of Panhandle Eastern Pipe Line Company?

A. A very small portion of the total is owned by the public.

Q. Do you know that institutional investors own $6,250,000 of first mortgage, first lien, 1946–1950, of Panhandle Eastern?

A. I don't know those figures.

Q. And that they were sold in 1941 to yield 1.65 percent?

A. I don't know those figures.

Q. Do you know that Panhandle Eastern Pipe Line Company notes, .75 to 1.50 percent, 1941, in the amount of $5,000,000,

5714 are held by institutions.

A. I don't know those figures.

Q. Your study omitted Peoples Natural Gas Company, with total securities outstanding of $16,950,000, all held by affiliates?

A. That company is not included; I don't know the figure.

Q. Your study omitted the Pittsburgh and West Virginia Gas Company, with total securities outstanding of $21,690,000, all held by affiliates?

A. That company is not included.

Q. And your study omitted South Penn Natural Gas Company, with $10,000,000 of total securities outstanding, all held by affiliates?

A. That company is not included; I don't know the figures.

Q. Your study omitted Texhoma Natural Gas Company, with total securities outstanding of $19,450,000, all held by affiliates?

A. That company was not included.

Q. And your study omitted United Fuel Gas Company, with total securities outstanding of $19,335,000, 4½ million held by institutions and the remainder by affiliates?

A. That company was not included; I don't know the

5715 figures.

Q. Your study omitted United Gas Pipe Line Company, with total securities outstanding of $125,860,000, $5,230,000 of which were owned by the public, $858,000 by institutions, and the remainder by affiliates?

A. That company was not included; I don't know the figures.

Q. Your study omitted Virginia Gas Transmission Corporation, total securities outstanding of $4,000,000, all held by affiliates?

A. That company was not included; I don't know the figures.

Q. And your study omitted Warfield Natural Gas Company, with total securities outstanding of $10,300,000, all owned by affiliates?

A. That company is not included; I don't know the figures.

Q. And one more company was the West Texas Gas Company, with total outstanding securities of $5,000,000, $3,000,000 owned by institutions and $2,000,000 by affiliates?

A. That company was not included; I don't know the figures.

Q. Now, Mr. Coffman, of the total of $1,185,000,000 of outstanding securities of the major natural gas companies in the United States, would it be a fair approximation to say that 31 per-
5716 cent is held by the public, a little over 15 percent by institutions, and more than 53 percent by affiliated interests?

A. I wouldn't want to pin myself down to those percentages for the moment, but generally speaking there are a number of companies in the industry which are controlled, one way or another, through systems and therefore no part or any part of their securities is traded in the market and consequently has a market quotation.

Q. Well, can you state from your knowledge that you gained by making this study of selected companies, that more than half of the total outstanding securities of the natural gas companies in the United States are owned by affiliated interests?

A. Well, I would say that that is approximately correct.

Q. Then you don't know that 28 natural gas companies have all their securities owned by affiliated or institutional investors, and that 15 natural gas companies have their securities held by the public?

A. Well, generally, I know the names of the companies. As a matter of fact, I considered all of those in the original study and eliminated them wherever there were not market quotations to get information from.

Q. You didn't make a rate of return study for the Hope Natural Gas Company, did you?

A. No; what I did was to make a study which showed the
5717 investors' appraisal of the risks of capital, on the basis stated in the report filed.

Q. A purely statistical study?

A. Purely a statistical study.

Q. And you didn't make any comparative analyses of your 13 natural gas companies and the Hope Natural Gas Company on a

consideration of operating revenues, earnings, dividends, gas supply, and gas markets, did you?

A. No, sir.

Mr. SPRINGER. That is all.

TRIAL EXAMINER. I am not sure whether you made this matter of market quotations clear in your original testimony as to just how you determined those market quotations. I assume that the quotations were of actual sales of securities?

The WITNESS. Well, in most cases they are either New York Stock Exchange or New York Curb Exchange quotations, except in one or two instances where they were bid and asked prices for the entire year. What I did was, if it were a stock market quotation, to take the high and the low for the entire year, and then I took the average of that as being the best approximation of the even figure in between, and did the same on a bid and asked quotation.

TRIAL EXAMINER. All the securities you used, then, were listed either on the New York Stock Exchange or on the Curb, is that correct?

5718 The WITNESS. That would be correct for the great proportion of the indicated market value. For instance, if I had an indicated market value as in Pacific Lighting of around $166,000,000, the greater proportion of that was based upon the securities that were traded in a recognized exchange, and did have a high and low and closing price quotation.

TRIAL EXAMINER. Now on what was the smaller proportion based?

The WITNESS. That would be in those few instances, such as I told Mr. Springer, where there might have been a bank loan or a serial note upon which there was no trading whatsoever, and I took those at par as indicated, or if there was a call price higher than the par, I took that; otherwise, if I made an estimate where in one case I said 105.56, that was based on the position of the particular mortgage bond in the capital structure, and the maturity date, which I knew from the way securities of that type were selling, should have sold above par, and I would take that which approximated the actual yield basis——

TRIAL EXAMINER (interposing). You didn't take into consideration the activity of the stock in the market, did you?

The WITNESS. No; I didn't consider volume. What I wanted to be sure of was that there were actual shares traded or bonds traded day in and day out, which gave enough of markets. Now

whether it might have been, during the course of a year,
5719 ten million shares traded or five. I didn't consider that; no, sir.

TRIAL EXAMINER. But there had to be sales from day to day and not just perhaps once a month?

The WITNESS. Yes, sir; there had to be sales from day to day; and I did not consider private sales where there was just one sale, such as to an institution or an insurance company, where it was going to be locked up and not in the market any more, such ~~as those~~ that Mr. Springer has been mentioning recently.

Mr. SPRINGER. You are not an investment counselor, are you?

The WITNESS. Standard and Poor's Corporation is investment counselor, and I am Vice President in charge of one division of that business.

By Mr. SPRINGER:

Q. You don't counsel on investments and advise clients to make certain investments?

A. I personally have in charge people that do; I don't do much of that directly myself.

Q. You don't?

A. No, sir.

TRIAL EXAMINER. Well, the number of shares of stock of a particular company being traded in would affect, to some extent, the market price of the stock, wouldn't it?

The WITNESS. I think I would have to answer your ques-
5720 tion this way, that if there were some unusual conditions in the market whereby volume increased considerably, let us say on the selling side, that the price might be driven down. The reverse would be true if the volume increased because there was a sudden run for the stock and people were buying and buying and the price might go up. But that, generally speaking, would be for a relatively short period of time, and I felt that in this study where I took 1937, 1938, and 1939, and now have included 1940, and took the year range, that any such wide fluctuations as you might get by an unusual situation were wiped out because you don't have a condition of that sort ranging over a long period of time—I mean for those odd fluctuations. So that, taking a year's range, you would get a fairly close approximation of what would be considered a reasonably normal figure for the amount of trading that is being done during that period.

TRIAL EXAMINER. Does the City of Cleveland have any questions?

Mr. REEDER. No questions, Mr. Examiner.

TRIAL EXAMINER. West Virginia?

Mr. KOONTZ. No questions.

TRIAL EXAMINER. Is there any redirect?

Redirect examination by Mr. COCKLEY:

Q. Mr. Coffman, does your exhibit show, in your opinion,
5721 the investors' appraisal of the risk of capital in the natural gas business for each of the years you have given?

A. I think it does, because on any other companies that were mentioned, which were owned by affiliates or otherwise, there was no way to appraise that risk, to my knowledge.

Q. But my question now is whether or not, in your opinion, the figures shown by you each year for the natural gas business are the investors' appraisal of the risk in that business for that year?

A. I think it very definitely is.

Q. And is the same true for electric companies, year by year?

A. Yes, sir.

Q. And for the other utilities that you show?

A. Yes, sir.

Q. Now, Mr. Springer has called your attention to a number of companies. Has he called your attention to any company which you now think properly should have been included by you in this study?

A. No, sir.

Q. And which you omitted?

A. No, sir; I do not think any of the companies he has mentioned could have been included on the basis of the study as I made it. I stated clearly the basis of the companies that were considered, to begin with, and what the final selection
5722 came down to.

Q. And I am correct that the companies that you have included here include all of the natural gas companies upon which information of the kind that you were seeking was available?

A. To my knowledge it includes them all within the limits that I have stated in my two reports.

Q. Mr. Coffman, I don't know whether you completely cleared up the matter or not, but the question is still in my mind as to whether or not you in any case took a market price or a market quotation that represented completely inactive or a very inactive market, as for instance only an occasional sale, once a month, or something of that kind?

A. For the great bulk of the total indicated market value, there was ample trading on the securities. There are, on a few items, bid and asked prices, where there was trading, but I think we all know over-the-counter trading cannot be accurately checked as to the volume of shares, so that many times, although you have a reliable quotation, you don't know how many shares it involves.

Q. But that would be in case of the minor securities of a few of these companies?

A. In every case it was.

Q. And when you talk about quotations on the New York Stock Exchange, of course you refer to the reported price
5723 at which securities were actually sold?

A. Yes; I am taking the quotations as recorded in all the reputable papers, and by the New York Stock Exchange and Curb Exchange themselves as to the quotations.

Q. Now do you know of any producing field owned by the Pacific Lighting Corporation or its subsidiaries?

A. I don't know of any.

Q. Am I correct that Pacific Lighting Corporation, in addition to its distribution of natural gas, until a few years ago was also a very large distributor of electricity?

A. It was, yes, sir; until recently.

Q. And in what year, can you tell us, where the electric properties sold and its activities thereafter limited to the distribution of natural gas?

A. I believe it was 1937.

Mr. Springer. That is right.

The Witness. January, 1937, the electric properties and business were sold to the city.

By Mr. Cockley:

Q. The City of Los Angeles?

A. Yes, sir.

Q. Am I correct, then, that the history of the company is that it served—the history of this holding company—that it and its subsidiaries served manufactured gas and electricity in Southern California territory up to 1913?

5724 A. That is correct.

Q. And from 1913 to 1927, it served mixed manufactured and natural gas, and electricity?

A. That is correct.

Q. And then from 1927 to 1937, January 1, it served straight natural gas and electricity?

A. Yes, sir.

Q. And it is only since 1937 that its sole business has been the distribution of natural gas?

A. That is correct.

Mr. SPRINGER. What do you mean by distribution? There are 1,600 miles of transmission lines in that integrated system. I object to the form of that question, and move that the question and answer be stricken.

TRIAL EXAMINER. Why?

Mr. SPRINGER. Well, it assumes facts not in evidence here. There is no evidence that it is purely a distribution system. He has admitted that they have 1,600 miles of transmission line.

Mr. COCKLEY. All right, if it will please Mr. Springer, I will say the transmission and distribution; will that make you happy?

Mr. SPRINGER. That is more accurate; that is, all I am seeking are the facts.

The WITNESS. That is correct.

5725 By Mr. COCKLEY:

Q. How many cities and communities did you tell us, Mr. Coffman, this company serves?

A. I think it is about 242.

Q. And do you know what the total population served is?

A. Yes——

Mr. SPRINGER (interposing). About $3\frac{1}{2}$ million, isn't it?

The WITNESS. I have got the figure, the territory covers an area of about 38,500 square miles, and the population is about 3,495,000.

* * *

TESTIMONY OF HOPE WITNESS BROWN ON HISTORICAL RATE OF RETURN

Transcript Pages 5881–5914

(Omitted in Brown's Testimony Printed in Supplement to Brief of Petitioner)

5881 Cross-examination by Mr. SPRINGER:

Q. Mr. Brown, referring to your testimony on the historical rate of return related to the four periods of the Hope Company's history, I believe it was your testimony that you thought a rate of return reasonably to be expected in the period 1898 to 1907 was 15 to 20 percent?

A. Yes.

Q. And you called that the development period?

A. The early development period, yes, and I considered the minimum return to be expected to attract capital, 15 to 20 percent. I might say that I understated that.

5882 Q. Now in your second period, 1908 to 1926, you reached the figure of 12 percent?

A. That is correct.

Q. And you called that the maturity period?

A. A certain stage of maturity and permanency.

Q. Now in the period 1927 to 1934, you reached a conclusion of 10 to 11 percent?

A. That is correct.

Q. And you called that the period of rising quality rating for natural gas companies and the long distance pipe line era?

A. Well, the rising quality rating of natural gas companies I put in the fourth period, but a big broad expansion of markets for natural gas companies fell in this period from 1927 to 1934, with a very large increase in interest on the part of the investing public and the investment banker.

Q. Now in your fourth period, 1935 to date, you reached the conclusion that an 8 percent rate of return might reasonably be expected?

A. Not less than 8 percent is correct.

Q. And you described that period as one of declining money rates?

A. Declining money rates and increased quality rating to the senior securities of natural gas companies.

Q. Now when you speak of the rate of return reasonably

5883 to be expected by the investor, do you relate that to the cash contribution that is made by the investor to the enterprise?

A. In general. It means the rate of return that is necessary in the best judgment to attract capital. Capital usually means cash, cash investment.

Q. Now at pages 5209 to 5210 of the transcript, Mr. Cockley stated the purpose of presenting your type of testimony on historical rate of return. I wonder whether you adopt his theme, which in essence is this: If you are going back to a rate base that is an accumulated history over a long period of years, then the right rate of return to go with that is the historical rate of return that should accompany original cost. Then he explains the rate of return that they reasonably had a right to expect at that time when they invested their dollars in that property. Do you adopt that theme?

A. Yes: I adopt that theme, on this basis, that it seems a matter of fairness and justice on the part of any regulatory body, that if a rate of return on the investment is allowed for bonds or stock, and the investor makes his investment on that basis, that he is entitled to the end of his investment at that rate of return. He has got to take his chances on an increase in values or on a decrease in values, and on the improvidence on his part and the part of the managers of the property, he has to cast in his lot.

5884 If the investment increases in value, it seems to me that it would carry with it a contemporary rate of return, but if the investment remains stationary, the rate of return has got to carry through to the end, based on its original figure.

So I adopt Mr. Cockley's thesis in full, on the basis of fairness.

5885 If I invest a dollar in 1900 on the basis of 20 percent rate of return, then I expect to get 20 percent indefinitely, but on the other hand if my dollar advances, then I should expect to take my luck on any increase or decrease, presumably a decrease, in the rate of return.

Q. Now, when you say "rate of return on investment," do you originally relate that to the cash investment of the investor, and now when you speak of a change in the value of the investment, what do you mean?

A. Well, if I invest a dollar in farm land in 1900, with labor at 15 cents an hour, I should expect to get the same rate of return on that indefinitely in that farm land, at 15 cents an hour. If that farm land advances in value, based on 40 or 50 cents an hour labor, and a rising cost in land, then I should expect to take my chances on whatever the market rate of return was in the future. Answering your question specifically, your capital that is invested in any property years ago, naturally in the form of cash, would carry on with the same rate of return on that particular property in my mind or in the minds of any investors.

Q. The labor cost that you mentioned for operating a farm, related to a regulated utility, is an operating expense which is covered by the consumers' rate, is it not?

A. Yes.

Q. Now, on page 12 of your Exhibit 19, you say that
5886 it is your opinion that investors would not at the present time provide the capital for the Hope Natural Gas Company unless it was allowed and was earning at least 8 percent upon whatever is determined the fair value of its natural gas properties. Now, that seems to be at odds with the theme that you adopted on the rate of return to be expected upon the cash invested in the enterprise?

A. I don't see the discrepancy, Mr. Springer, but I might amplify it by saying that if you were to attract capital today to the Hope property, in my judgment it would cost you at least 8 percent over-all return on whatever is found to be the fair value of that property as of today.

Now, if you go back to some smaller value, naturally the 8 percent still holds.

I am not concerned particularly with what the rate base is going to be. I am testifying as to the rate of return on some rate base, and in my judgment it is not less than 8 percent.

Q. Whether or not the investor has contributed $50,000,000 or $100,000,000 to the enterprise, you would still recommend an eight percent rate of return?

A. That is correct.

Q. Now, on Exhibit 19, page 45, you state that more specifically the problem reduces itself to one of what rate
5887 of earnings the Hope Natural Gas Company would have to enjoy at the present time on its natural gas properties to enable it to replace the money invested in them.

How do you reconcile that with the theme adopted by Mr. Cockley, and by you?

A. Well, I am concerned entirely with a theoretical refinancing problem. As I testified the other day on direct rebuttal, I called attention to the Southern Natural Gas Company which was practically a complete refinancing job. The investor is interested in yield on his money; in security; in future prospects; and other things. He is given a prospectus of what the value of that property is.

Now, the property may be a large figure, it may be a small figure. He is interested in the items that I have just mentioned.

Now, in reconciling this with what Mr. Cockley said, if the investor thought that in the next 15 or 20 years this property—assuming a refinancing operation as of today—would not be allowed to advance with advancing costs of materials and labor and other things, he would be rather hesitant to invest his money in it.

In other words, the theory of "heads he loses, tails the other fellow wins" would scare the investor away in part at least.

The investor takes his chance on a decrease in investment,

5888 or an increase in investment; and by "investment;" I mean the rate base.

Over a period of 100 years, I think it is well known that labor costs have gone up, many materials have gone up. If the investor feels that he is going to be shut off from any advance in the future on materials and labor costs, for future rate bases, I think he would be pretty well scared and stay out.

Q. Are you making any distinction between the speculative investment in industries that are not regulated and investment in the utility industry?

A. No; they are one and the same because capital will go into a speculative industry or into a public utility industry along the same general principles.

Q. And those principles are hope of gain and fear or loss, I take it?

A. Those are two of them. There is also security as regard first mortgage bonds, where there is no hope of gain. In other words, a man buying a first mortgage bond is not particularly interested in any gain, he wants security of principal and security of yield, income.

Q. Well, I consider yield a gain.

A. All right, I will accept that.

Q. Now, you relate your rate of return to be expected at the outset, to the capital invested by the investors, isn't that so?

5889 A. Yes.

Q. Now, that is distinguishable from the original cost or historical cost of the properties, is it not?

Mr. COCKLEY. I don't know what is distinguishable from what. Your question is not clear to me.

TRIAL EXAMINER. As I understand it, it is the amount of money invested as distinguishable from the original cost.

Mr. COCKLEY. How is there any difference between those two? I don't get it.

TRIAL EXAMINER. Do you understand the question, Mr. Brown?

The WITNESS. I think I understand the question, Mr. Examiner, but I am trying to think of an answer. Naturally a million dollars put into a property in 1900——

By Mr. SPRINGER:

Q. (Interposing.) Is this a cash investment?

A. $1,000,000 in cash put into a property in 1900 is worth more than $1,000,000 today, everything else being equal, assuming the company to have been in operation successfully during the last 40 years.

5890 If you allow the original cost of the property which was paid for with cash, and allow no increment due to rising costs of everything in the last 40 years, or nearly everything, I think you would have a tough time attracting capital to a utility today, or tomorrow, or for the next period of years.

Q. Do you make any distinction between investors' capital contributions and consumers' capital contributions in a utility enterprise?

A. I don't know of any consumers' capital contribution except the price of a stove.

Q. Well, do you know that excessive rates for the service rendered is considered a consumers' contribution?

A. It might be so. I don't approve of any excessive rates.

Q. Mr. Brown, your four periods for the Hope Company correspond generally with the Nation's economic history, do they not?

A. Yes; with that chart you have there. They correspond in general with the chart showing the economic history of the United States, but there are many more than four periods during the last 41 years.

Q. Then, it isn't a coincident that the four Hope periods you selected are parallel with the economic history of the nation?

5891 A. If I understand your question, there are many more than four periods in the last 43 years, 1898 to 1941. I grouped them in four periods due to certain characteristics which obtained in the entire natural-gas industry. Now, breaking those periods down into smaller periods, they would in general correspond to a chart of the economic history of the United States.

Q. Now, do you, as an investment banker, contend that an investor making a permanent investment in capital stock expects always to get the rate of return that happens to be current at the time he makes that investment?

A. Now, he has got to take his chances with decreased or increased dividends, but he makes the investment at the time with the hope and reasonable expectancy of that same rate of return, subject to the good and bad of the future.

Q. And do you know that a rate of return higher than the then prevailing average will in time attract more and more investors to a particular enterprise?

A. I think that is self evident.

Q. In other words, an attractive investment will secure additional investors until that rate that was higher than the prevailing average has raised the norm, more or less?

A. Well, when we come to float a bond issue, we compare all the other bond issues of that type that we can find—in fact, I have done it in the last 48 hours—and we take the

5892 average of the yields. If the average of those yields is 3.50 percent, then we set up our bond issue to yield 3.55 or 3.60, a very slight increase in the bond issue yield, to make it more attractive.

With the stocks, the principle obtains, with possibly a slightly wider margin of yield, but that difference is very small and doesn't affect my rate of return of 8 percent.

Mr. Springer. May I have my question read? I think your answer is "yes" to my question.

(The question was read by the reporter.)

The Witness. I should have started my answer with "yes."

By Mr. Springer:

Q. Your answer is "Yes"?

A. Yes; with that qualification.

Q. In other words, the investors are aware of the law of supply and demand as it is related to capital?

A. In general, they are; yes.

Q. And the investor, particularly as a common stockholder, knows that his return will not be the same each year but that he must suffer the ups and downs of the economic cycle?

A. Yes; that is true.

Q. Now, in Exhibit 19, page 8, you state that from an investor's viewpoint, the Hope Natural Gas Company does not have possibilities of growth, and therefore its securities would

5893 be less attractive than, for example, some other gas company, and on page 9 you say that fluctuations in revenues, plus the declining trend of production in West Virginia, and other considerations, indicate to the investor declining rather than increasing sales for the Hope Natural Gas Company over any considerable future period. Those are statements that appear in your exhibit, are they not?

A. That is correct.

Q. Now, did you testify that long-distance transmission lines have tended to stabilize the natural gas industry?

A. I did.

Q. Now, in view of the testimony by Mr. Tonkin that there has been a tremendous increase in the sales of the Hope Natural Gas Company, and that they propose to spend millions of dollars to augment the production and transmission system of the Hope Natural Gas Company to meet increased demands, and have even proposed a $25,000,000 pipe line extension to Louisiana, exceeding 800 miles, I believe, would you care to alter any of your statements in Exhibit 19?

Mr. Cockley. I object to that as not a complete statement of Mr. Tonkin's testimony at all. In the first place, the proposal is to become effective several years hence, and I don't think the question fairly includes all of Mr. Tonkin's testimony. If he wants to ask an expert witness, I think he should

5894 give him an opportunity to read Mr. Tonkin's testimony, or read it to him, and then ask him any questions he wants to about it. This isn't, as I understand it, cross-examination on his testimony of the other day, but rather it goes back to his original testimony at Clarksburg.

Mr. Springer. That isn't so at all, because he reiterated that he didn't choose to change his original——

Mr. COCKLEY (interposing). I am not objecting on that ground, but I think if you want to be fair to the witness you should ask him to read Mr. Tonkin's testimony, or else read it to him.

TRIAL EXAMINER. Or state a hypothetical question, if you are unable to state just exactly what Mr. Tonkin's testimony was. Of course, you are tying this in directly now to Mr. Tonkin's testimony.

Mr. SPRINGER. Well, if Mr. Brown doesn't know about the growth of the Hope Company's system, and the proposed new pipe line, I don't see how I can ask him any questions about it.

TRIAL EXAMINER. I don't know that that makes any particular difference. You can state a hypothetical question, including those elements, and ask him whether or not that would have any effect on his judgment. That is what you are trying to find out, isn't it?

Mr. SPRINGER. Yes; I didn't want to resort to hypotheses
5895 when there is evidence in the record of the growth and the proposed pipe line.

TRIAL EXAMINER. I don't know what else you can resort to, unless the witness already knows what the testimony is.

By Mr. SPRINGER:

Q. Do you know, Mr. Brown, that Mr. Tonkin testified that there was an increase in gas sales of from 50,000,000 M. c. f. in 1939 to an expected 70,000,000 M. c. f. in 1941?

Mr. COCKLEY. I don't think that is a correct statement. Have you the figures before you for 1939?

The WITNESS. I have, for 1939. I know in general about the plan for an extension at a cost of roughly $25,000,000 down to Louisiana. I don't know when that can be completed, or any of the details about it, but it seems to me it confirms my testimony of a year ago that the growth possibilities were extremely limited.

On page 8 of my direct testimony of a year ago, I show the declining tendency in West Virginia natural gas output, and I bring out that point very distinctly, that the growth possibilities would go a long way towards scaring off the investors in Hope Natural Gas property a year ago. I see nothing to change my opinion as of today.

The Hope Company, in M. c. f. of output reached its peak back in 1915, approximately duplicating it in 1916. Then, there was a long decline until 1933; then there was some pick-up
5896 from 1933 until 1937; then a decline, and then a very marked

pick-up for the last year and a half, very largely due to the boom.

Now, an investor goes into a utility not with any view of a boom but with a long-range investment standpoint, and the building of this pipe line would indicate a ceiling on output in the neighborhood of 60 or 70 million M. c. f., which is much below what the output used to be, in fact it is below what it was prior to the first World War in 1912 or 1913.

That is what I was alluding to when I said that the growth possibilities were extremely limited and I put growth possibilities at the top in weighted value, as to the list of factors necessary to attract capital.

By Mr. Springer:

Q. Do you mean by "growth possibilities," the possibility of additional natural gas in West Virginia for Hope?

A. West Virginia and over into Kentucky, without a very large outlay of money. Now, what they have got to do, as I understand it, is to put a very expensive pipe line down into Louisiana, and I remember testifying to this last year, that it meant either Louisiana or Texas in order to fill the demands.

Q. Do the statistics for the tremendous increase in the sales of natural gas reconcile with your statements in Exhibit 19?

5897 Mr. Cockley. I object to the question unless it is more specific, specifying what increases and what statement and—

Trial Examiner (interposing). What increases are you talking about, and over what period?

Mr. Springer. Well, I believe you are aware of the 50 million M. c. f. sales in 1939?

The Witness. Yes.

By Mr. Springer:

Q. And the increase which is predicted to reach 70 million M. c. f. this year?

A. Yes.

Q. Then, on page 9 of Exhibit 19, you say there is an indication of declining rather than increasing sales for Hope Natural Gas Company?

A. I state on page 9 that the declining trend of production in West Virginia plus the fact that for a few days in 1940 many industrial consumers dependent on Hope were curtailed to conserve the supply for domestic users, indicate to the investor a declining rather than increasing sales for the Hope Natural Gas Company over any considerable period.

Now, I say nothing about going out and buying a property, or extending a line 800 miles away. That is always in the range of possibility to any company, but at an additional cost of
5898 capital which will at the same time dilute the capital already invested.

Q. But, of course, Hope has experienced these increased sales without building a new pipe line to Louisiana?

A. True, and have reached a ceiling there at 70 million M. c. f.

Q. Do you predicate that that is the ceiling?

A. Well, I don't know whether that is the exact ceiling, but I think it is common sense to call it a ceiling when they are going out and spending $25,000,000 to get an additional supply of gas. It seems to me that it is self evident.

Q. Do you mean to imply that an investor, who invested his money in the first period of Hope's history, expected to earn a rate of return of 20 percent forever on that investment?

A. Yes; and I am understating it at 20, probably 25 percent. If you knew anything about the mining or oil business in those days, you made anywhere from 25 percent to 100 percent or else you didn't put any money into the ground.

Q. Now, you have related the Hope Natural Gas' early history to the oil business.

A. It has many similarities with the oil business, and it has today.

Q. Well, now, isn't one of the chief causes of regulation, the higher rate of return that was made possible by the high prices of monopoly in the early years?

5899 Mr. Cockley. I object to that, we are getting awfully far afield on speculations of that sort.

Trial Examiner. I don't know just what knowledge this witness would have of that.

Mr. Springer. Well, he has spoken about the Standard Oil Company with its operations in oil and natural gas, and he has related the natural gas business to the oil business, and I think it logically follows that the history of the nation has recorded the development of regulation to control the high rate of return made possible by the high prices of monopoly in the early years.

Trial Examiner. You think this witness then should know what has caused the regulation?

Mr. Springer. He really should if he is a student of the economic history of the United States.

Trial Examiner. Well, I will let the witness answer.

The WITNESS. Well, I am a firm believer in regulation of natural gas companies, and I am a firm believer in regulation of all public utilities. To that extent, natural gas companies differ from oil companies, and naturally any company that is subject to regulation perhaps has two differing factors involved as governing the attraction of capital: one, the regulation tends toward stability; and two, the regulation tends toward a restriction of
5900 profits. One is favorable, perhaps, and the other is less favorable.

By Mr. SPRINGER:

Q. Do you know that the natural gas industry was subject to regulation through the whole period?

A. I do.

Q. That you have testified about?

A. Yes.

Q. Now, wasn't the investment of the Standard Oil Company, of money in the Hope Natural Gas Company at a time when Standard Oil was, as you have testified, able to earn about 25 percent on its investment, an indication of the high profitableness of the natural gas business in West Virginia, perhaps to its monopolistic nature, rather than an indication of the cost of money for a natural-gas public utility?

Mr. COCKLEY. Well, that is a statement——

The WITNESS (interposing). No; I don't think so. The Standard Oil Company had properties all over the world. Of course, they were much smaller then than they are today, and to get anybody to go out into the hills of West Virginia and sink a gas well in 1898 called for a high cost of money, and there were mighty few individuals that were willing to do it; and outside of the two or three oil companies, I don't think it could have been done.

My point in bringing that Standard Oil figure of 25 percent in, was to get some idea of what ~~the~~ Board of Directors
5901 of the Standard Oil Company might be thinking in 1898 when they wanted to risk some money in the West Virginia hills, which was a young industry and a brand new enterprise in a young industry.

I can't think for a Board of Directors in 1898, but applying the same conditions of 1898 to 1941, I wouldn't sit on any Board of Directors and start to sink money out in the wilds of Australia for natural gas, with no market and only a half a knowledge of what I was going to find, for less than 25 percent.

By Mr. SPRINGER:

Q. Do you mean that the people in Ohio weren't begging for natural gas in the early period of Hope's history?

A. They were, but they were getting it from little local fields around Ohio. They didn't introduce it into Cincinnati until many years after 1898.

Q. Do you know that the Hope Company was supplying natural gas to the East Ohio Company?

A. It started very early, yes; but the great majority of the output of the Hope Company for several years after 1898 was field sales to oil and gas companies in West Virginia for use under their boilers. In other words, it wasn't a public utility in any sense of the word.

Q. But immediately after that it entered into the public-utility phase of its history?

5902 A. No; I wouldn't say it did until about 1906 or 1907 when the percentage of sales of Hope turned from being mostly field sales to being sales to domestic and industrial consumers. When the percentage crossed the 50-percent line to industrial and commercial consumers, then it became essentially a public utility.

Q. Now, one of the incentives to invest in a new, untried enterprise is the prospect of a higher rate of profit, isn't it?

A. Yes.

Q. And this is probably true because there is no past history for enterprises to assure the investor of the degree of safety of his investment?

A. Yes.

Q. But as the industry becomes seasoned and proven, it is reasonable to expect the rate of profit to decline?

A. Yes; generally.

Q. Now, you have stated that one of the stabilizing influences in the natural-gas business has been the transmission of gas by means of long-distance pipe lines since 1926, I believe?

A. Well, since about 1926–1927; yes. I wouldn't use the word "stabilizing" exactly. That was what made the public interested in natural-gas securities on a national scale. It did stabilize
5903 it to a large extent, but it brought in new markets, great metropolitan areas.

Q. And of course that means that the cost of money is reduced?

A. That is correct.

Q. And this [illegible] of stabilization should tend to lessen the risk to the investors in a company like the Hope Natural Gas Company?

A. Yes.

Q. Now, on page 5225 of the transcript you testified that 1934 was the end of the normal money market. What do you mean by the words "normal money market"?

A. Well, that is a rough figure, 1934. We started to see a decline in money rates—any table of bond yields will show that—money came very easily around 1935, increased in easiness in 1936 and the following years, and we had an abnormally easy money market in the last five or six years, with yields of high grade bonds declining from $4\frac{1}{2}$ to 5 percent down to $2\frac{3}{4}$ percent.

Q. In your opinion, then, low interest rates constitute abnormality?

A. Well, that is a large subject. My personal opinion is that 10 or 20 years from now, or less—I don't know—high grade bonds will work back towards a $4\frac{1}{2}$ percent yield, but when that day comes no man knows, it always has in the past.

5904 Q. Do you think low rate of interest is an unusual thing?

A. It certainly is. The lowest interest rates in the history of the United States have been in effect in the last few months.

Q. What is your norm so that you can reach a description of this period as being abnormal?

A. I just gave it to you—high grade bonds, $4\frac{1}{2}$ to 5 percent; the next type of quality bond, 5 to $5\frac{1}{2}$ percent.

Q. And do you know of any period in the nation's history that was relatively close to that cost of money?

A. Yes; it appeared around 1900 when railroads could finance on a 3 percent basis, but it wasn't as low a rate level as it is today.

Q. Again we are speaking in relative terms?

A. Well, yes; what was the question?

(The question was read by the reporter.)

The WITNESS. For a few months it was relatively close, in 1900, it was relatively close to today.

By Mr. SPRINGER:

Q. I believe you described the Hope Company at certain periods as essentially a mining company?

A. I did.

Q. And what is the basis of that description?

A. Well, the essence of a mine is something that is
5905 taken out of the ground, and you have only a partial knowledge of what is underground. Therefore, you have a very substantial factor of risk. The reserves can be measured only in part, and at best they are estimated, and at the same time you have a wasting asset; a wasting asset, in the eyes of an investor, is a very serious thing. It means you have got to look for more reserves all the time, either in the same territory or further afield, and I would say that Hope has many of the essentials of a copper mine of the better class, or an oil company of the better class. I don't rank them with these "cats and dogs." I put them on the same basis as the upper group of mining companies and oil companies.

Q. The risk you speak of related to wasting assets, a wasting asset industry, will be minimized for the Hope Company by the new pipe line to Louisiana, and then the proposed extension to Texas that Mr. Tonkin testified about?

A. Certainly the risk will be reduced by this pipe line, but at the same time there is an element there of probable decrease in earnings due to the increased cost of capital. You can't raise $25,000,000 and put it to work overnight. It will take some time before that is reflected in increased earnings.

Q. Are you informed that the Hope Company will go into the public market for this money?

A. I don't care whether they go into the public mar-
5906 ket or whether the Standard Oil Company advances the money, it is all one and the same. The capital is the same whether it is advanced by A or B.

Q. What if the Hope Company has sufficient funds of its own?

A. Well, it hasn't got sufficient funds of its own. It can borrow.

Q. Do you know how many millions it has invested in securities?

A. I do, or at least I looked at the December 31, 1940, balance sheet, recently, and it hasn't got $25,000,000 of cash and Governments.

Q. Would you say that they would have to earn an 8 percent rate of return on that $25,000,000 to attract investors?

A. Not at all. I would say they would have an 8 percent overall rate of return if they went into the public markets.

Q. Now, do you know that what you referred to as a wasting asset is covered by consumers' rates in annual depletion allowance?

A. Yes, I do.

Q. And do you know that the history of the natural gas industry has been that additional gas reserves have been discovered which have gradually increased the total amount of natural gas reserves recoverable in the United States in the last two decades?

5907 A. I do, a very large increase in the natural gas reserves throughout the United States, but you will find that that increase is almost entirely confined to the far west and the southwest.

Q. And Hope has a proposed pipe line to go to Louisiana now?

A. Yes.

Q. Where additional reserves are located. Now, do you know how much gas is purchased by the Hope Natural Gas Company to meet its requirements, just the proportionate amount?

A. Oh, two-thirds, roughly. I can give you the exact percentage. I have checked with the engineers, but I don't recall the exact figures.

Q. Now, the fact that Hope purchases two-thirds of its requirements, does that change your opinion that it is essentially a mining enterprise?

A. Not in the slightest. You asked me the same question in June of 1940, and my answer was substantially as follows; That the vendors or independent producers mined gas and sold it to Hope; and they had all the risks and uncertainties that go with the Hope Company's own wells. They are one and the same in the eyes of the public.

Q. I believe you stated that Hope was essentially a public utility since 1907?

5908 A. I wouldn't put it as definitely as 1907—since about 1906 or 1905.

Q. Well, the fact that Hope——

Mr. Cockley. You are not asking that in any legal sense, are you, Mr. Springer?

Mr. Springer. Well, all my questions are legal questions.

Mr. Cockley. Well, if they are, then I move to strike out the whole cross-examination, but as I understood Mr. Brown's testimony it was because so large a part of Hope's sales were field sales prior to about 1906 or 1907, and he wasn't very specific about the date; that he didn't really consider it to be a public utility before that time, without trying to put that in a technical sense, and

you are not now trying to ask him whether legally and technically it was a utility subject to regulation, are you?

Mr. SPRINGER. Well, of course, Hope was rendering service to the public in this period you speak of since 1906, and was subject to regulation by West Virginia by an early period.

The WITNESS. Yes, it was rendering service to the public prior to 1906 in a small way. The public looks at things in a large way, and technically it was a public utility prior to 1906, but actually it was in the same category as an oil company.

By Mr. SPRINGER:

Q. You mean that if it purchases two-thirds of its
5909 requirements it isn't a merchandising company?

A. Well, the word "merchandising" covers a broad field. I don't call it a merchandising company. It mines gas from its own wells, and it buys gas from somebody else's wells. Now, they are one and the same type of wells—it has its gathering lines. If a well belonging to an independent operator gives out, then that gathering line becomes obsolete or has to be taken up and placed elsewhere.

Now, the same risks and uncertainties follow the independent operator as they do the Hope Company with reference to its own wells. It is a mining or producing company, and I don't make any distinction between those two types of wells, owned by Hope and owned by the other people.

Q. Is the basis of your opinion on these various unusual rates of return, the average investor's attitude toward the gas industry? You spoke of the general public, I believe, the small investor.

A. No; because the small investors were not in the natural-gas industry in the early days. The National Fuel Gas has a common stock issue which came about by a former merger. The Company was originally a trust, starting in 1882. In 1890, sometime, it developed into shares of stock which didn't have any market value until, I think, about 1921.

5910 There were no small investors in natural-gas companies, to amount to anything, prior to 1921, and even later.

Southern California Gas started a subsidiary, Pacific Lighting, which had both electric properties and gas properties. In fact, Southern California Gas started originally as a manufactured-gas company, and then a mixed-gas company, and it is only in recent years that it turned to natural gas. Its first bond issue was put out in 1917, and that was sold to the public, and that has

been the highest grade natural-gas company in the United States, and the only gas company that ever had an Aaa bond on it.

Q. Mr. Brown, is it a fact that more than half of the money invested in the natural-gas industry has been contributed by affiliated companies or institutional investors?

A. I think that is a fair statement.

Q. And you advise institutional investors, don't you?

A. I certainly do, and I have sold lots of natural-gas bonds to banks and to insurance companies.

Q. And institutional investors are relatively well-informed on any prospective investment?

A. They are well informed.

Q. So your small private investor test is probably a minimum test, isn't it?

Mr. COCKLEY. I object. He just stated he didn't use the small private investor test, if I understood his testimony.

5911 The WITNESS. It is just the same thing selling a bond to a country bank as it is to an individual.

By Mr. SPRINGER:

Q. Well, you seem to convey the impression that the small private investor has a psychology, a complex about the natural-gas industry which isn't supported by the facts of millions of dollars invested by institutional and well-informed affiliate investors in the natural-gas industry. I just wanted to clear that up.

A. Well, I don't think you have cleared it up. Your affiliates are totally distinct from institutional investors. The institutional investors, generally speaking, include banks and insurance companies, and the larger banks and the insurance companies are pretty careful investors, and they buy, in general, only the senior securities. I know of only one common stock of a natural-gas company which is owned by an institution, and that is Harvard College.

The common shares have got to be sold to the public, so you have got to take the little investor, as you call it, into account if you are going to have an over-all picture of the cost of capital.

Now the natural gas industry never would have been built up to its present size had it not been for the foresight and courage of the larger affiliates, notably Standard Oil and Cities Service and Columbia Gas & Electric, and Pacific

5912 Lighting.

Q. And they realized a handsome profit, rate of profit, on what you call their courage?

A. They did through the years.

Q. You didn't mean to imply that the Standard Oil Company was the original promoter of the Hope Natural Gas Company, did you?

A. Well, no; not technically. There was a small group of men who started it, but the Standard Oil came into the picture through one of its subsidiaries, at a very early date, I think it was 1900.

Q. About the beginning of your second period, wasn't it?

A. Oh, no; long before that. You will find the National Transit was the largest stockholder either in 1900 or 1901. I can look it up.

Q. Well, there is information in the record on that.

A. Well, I have the Government record, the historical record, the corporate history.

Q. When you speak of the wasting asset characteristic of the natural gas industry, and compare it with a mining enterprise, do you recognize the distinction that is related to this factor, for example, that in the natural gas industry, exploration and development costs are contributed by the consumers
5913 through the rates, and the markets for the natural gas are essentially protected markets?

A. Why, certainly, but take the Cleveland Railway Company, they have substantially a guaranteed 10-cent fare, but that doesn't make the 6-percent dividend certain. For a number of years they haven't paid dividends. You can't guarantee a return to the stockholder by having a consumer pay for the exploration.

Q. In a mining enterprise, the investor contributes the money for additional exploration and development, isn't that so?

A. Indirectly he does, because it has got to be charged into operating expenses before arriving at the net available for dividends.

Q. Mr. Brown, are you aware of the new drilling methods and the advances in the transmission methods which have revolutionized the natural gas industry in recent years, so that it might be said that investment yardsticks which were applicable in times past are not applicable today?

Mr. COCKLEY. I object to that. There is no evidence of it; it is the first time I have heard of any revolution here. It certainly isn't in this record.

TRIAL EXAMINER. I believe he was just asking him if he was aware of the revolution.

The WITNESS. Well, I went over the property of the Hope Company in December of 1939, and watched them drill a few wells by the then latest methods. I haven't heard of
5914 any particular advances since then in inventions. Assuming the methods of today to be better than they were in 1900, I wouldn't say that it would change my opinion in the slightest. There has been an advance in methods of manufacture, and everything else during the past 40 years. At the same time, there has been a change in cost of construction during that period, due to high labor cost and cost of materials. When we finance a company, my firm, we always have an engineer's report on the value of the property made, and that is the general attitude of the public in buying new securities. We put that report into our prospectus, and that is the normal thing to do.

By Mr. SPRINGER:

Q. Do you rely on the estimates of gas reserves as religiously as you rely on the appraisal of the property by your engineers?

A. Well, I think that the estimated gas reserves are for an indefinite period of years. I haven't assumed that it is any short number of years. No; I don't rely on that as accurately as I do on bricks and mortar that are above ground, and I don't think anyone else does.

Mr. SPRINGER. That is all.

U. S. GOVERNMENT PRINTING OFFICE: 1942